GHANA | MACROECONOMIC UPDATE | INFLATION | INSIGHTS

FUNDAMENTALS

GHANA'S JANUARY 2024 INFLATION: A CURVEBALL

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IN BRIEF

- Headline inflation threw us a curveball with an unexpected uptick of 30bps in January 2024 to 23.5% year-on-year against our forecast decline to 22.4% (average market expectation: 22.6%). Against the odds of continued disinflation on the back of a strong start to the year by the Ghanaian Cedi, stable energy prices, and lagged impact of lower electricity tariff, the upturn in inflation is a twist of fate that potentially dampens market optimism.

- The renewed price pressures were ignited by a 180bps upsurge in non-food inflation to 20.5% y/y, which outweighed the 160bps decline in food inflation to 27.1% y/y. On a month-on-month basis, headline inflation came in higher at 2.0% as both food and non-food inflation rates edged up to 1.6% (+30bps) and 2.4% (+140bps), respectively. The heightened pressure in the monthly inflation rate dampens our optimism about the pace of decline in annual inflation in 1H2024 amidst the new taxes introduced in the 2024 budget and expected pass-through of recent FX pressures.

- Notably, inflation for the heavily-weighted housing, utilities, gas & other fuels (22.6%) surged 310bps with added pressure from transport (5.6% y/y | +120bps) and education services (19.8% y/y | +590bps). Excluding the CPI for the heavily-weighted energy and utilities while accounting for the modest increases in other non-food items and the 160bps decline in food inflation, we opine that core inflation probably inched down in January 2024.

- The unexpected uptick in headline inflation bucks the trend of five consecutive months of decline in annual inflation and raises the inflation profile to a higher level than previously envisaged in our model for 1Q2024. Our estimation shows that the 100bps cut in the policy rate resulted in a 130bps reduction in the ex-post real policy rate to 5.5% in January 2024.

- Against the backdrop of higher taxes in the 2024 budget and pass-through of recent Cedi depreciation, we project annual and monthly inflation rates at 23.9% y/y and 2.2% m/m in February 2024. This will further reduce the real policy rate and likely keep the March MPC rate decision on hold at 29.0%.

A twist of fate

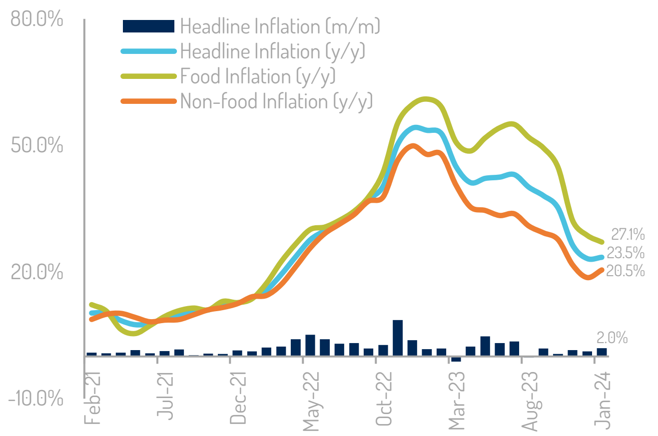
Headline inflation threw us a curveball with an unexpected uptick of 30bps in January 2024 to 23.5% year-on-year against our forecast decline to 22.4% (average market expectation: 22.6%). Against the odds of continued disinflation on the back of a strong start to the year by the Ghanaian Cedi, stable energy prices, and lagged impact of lower electricity tariff, the upturn in inflation is a twist of fate that potentially dampens market optimism.

The unexpected uptick in headline inflation bucks the trend of five consecutive months of decline in annual inflation and represents an upward detour two months ahead of our forecast increase in March 2024. This raises the inflation profile to a higher level than previously envisaged in our model for 1Q2024.

The renewed price pressures were ignited by a 180bps upsurge in non-food inflation to 20.5% y/y, which outweighed the 160bps decline in food inflation to 27.1% y/y. On a month-on-month basis, headline inflation came in higher at 2.0% as both food and non-food inflation rates edged up to 1.6% (+30bps) and 2.4% (+140bps), respectively. The heightened pressure in the monthly inflation rate dampens our optimism about the pace of decline in annual inflation in 1H2024 amidst the new taxes introduced in the 2024 budget and expected pass-through of recent FX pressures.

On a positive note, we observed lower year-on-year inflation rates for most of the sub-divisions of food items especially heavy-weights such as ready-made food (26.0% | -180bps), cereals (20.5% | -380bps), and fish & other seafood (30.6% | -190bps). However, inflation for vegetables & tubers quickened by 230bps to 35.8% y/y with the monthly rate surging 250bps to 3.0% m/m in January 2024. This raises a cautious outlook for food inflation ahead of the planting season between April to June 2024.

DISAGGREGATED CONSUMER PRICE INFLATION



SOURCE: GHANA STATISTICAL SERVICE

Core inflation probably inched down

Non-food inflation provided the main upward pressure on both annual and month-on-month inflation rates as 11 out of the 12 sub-divisions of the non-food group witnessed inflation upticks.

Notably, inflation for the heavily-weighted housing, utilities, gas & other fuels (22.6%) surged 310bps with added pressure from transport (5.6% y/y | +120bps) and education services (19.8% y/y | +590bps). We believe these pressures reflect the spillover effect of the festivities-induced spike in demand for transport as well as restaurant & accommodation services. We also think the spike in inflation for education services reflects school fees payment for the new term and semester as Ghanaian schools re-opened from the Christmas and New Year break.

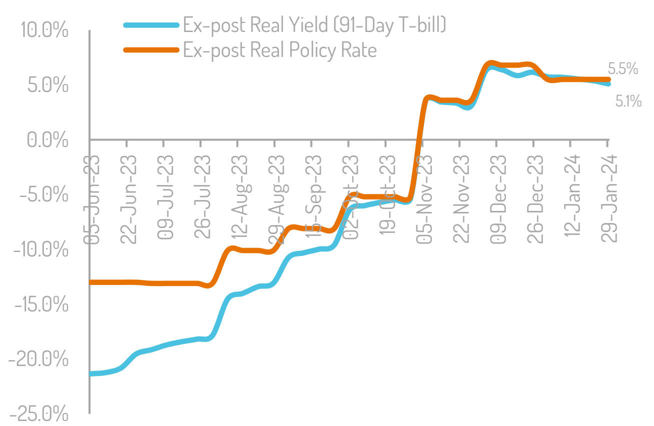
Excluding the CPI for the heavily-weighted energy and utilities while accounting for the modest increases in other non-food items and the 160bps decline in food inflation, we opine that core inflation probably inched down in January 2024.

Inflation surprise could prompt a "hold" at the March 2024 MPC meeting

Following the sharp disinflation in late 2023, nominal yields on Treasury bills have assumed a downturn with the 100bps cut in the policy rate providing additional tailwind for yield compression. In January 2024, the 91-day T-bill yield witnessed a 77bps m/m decline in nominal terms to 28.6% while the average ex-post real yield declined by 70bps m/m to 5.1%. Our estimation shows that the 100bps cut in the policy rate resulted in a 130bps reduction in the ex-post real policy rate to 5.5% in January 2024.

With higher taxes such as the emissions levy impacting the industrial and transport sectors in addition to higher excise duty on cider beer and imported plastic packaging, we foresee upside risk to inflation over the next 2-months. We thus project annual and monthly inflation rates at 23.9% y/y and 2.2% m/m in February 2024. This will further reduce the real policy rate and likely keep the March MPC rate decision on hold at 29.0%.

DYNAMICS IN SHORT-TERM REAL YIELDS



SOURCES: BANK OF GHANA, IC INSIGHTS

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