

FUNDAMENTALS

GHANA'S FEBRUARY 2024 INFLATION: BEATING A RETREAT

**Head, Insights**

Courage Kingsley Martey

+233 240 970 832

Courage.martey@ic.africa

IN BRIEF

- Following the unexpected rise in January 2024, Ghana's annual CPI inflation retreated to its previous level with a 30bps decline to 23.2% in February 2024 (IC Insights: 23.9%). The drop in inflation was aided by moderation in price pressures for influential items in non-food inflation while food inflation experienced a much-broader decline, albeit mostly for less-influential items.
- Food inflation came in 10bps lower at 27.0% y/y while non-food inflation witnessed a faster decline of 50bps to 20.0% y/y, on the back of lower inflation for some heavily-weighted items such as Transport. In our view, the inflation for transport was mainly contained by the year-on-year decline in ex-pump prices as the subdued global energy prices dampened the impact of year-on-year FX adjustments.
- Although the drop in headline inflation came against our forecast uptick of 40bps in February 2024, we observe early indication of our anticipated non-linearity in the disinflation process for 2024. In our outlook report for FY2024 - [Readying for Policy Pivot](#) - we opined that inflation will continue its downturn in 2024, but with a non-linear trend as we foresaw bumps in the course of the year.
- In March 2023, the CPI level witnessed an unexpected decline to record a rare month-on-month deflation of 1.2%. However, we do not anticipate another decline in the CPI level for March 2024. Against the backdrop of unfavourable base effect, a 5.0% y/y increase in diesel prices, and potential pass-through of recent Cedi depreciation, we forecast a 280bps jump in the headline inflation to 26.0% y/y in March 2024.
- Our year-start MPC expectation was for a first rate cut in March 2024. However, we believe the authorities have already frontloaded our March expectation in the surprise cut in January 2024. Against this backdrop and amidst the elevated inflation profile in 1Q2024, we expect the MPC to leave the policy rate unchanged at 29.0% during the March 2024 meeting.

Non-linear disinflation as expected

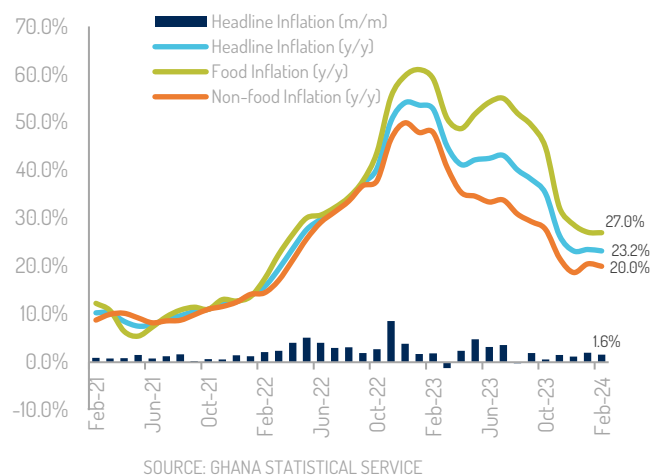
Following the unexpected rise in January 2024, Ghana's annual CPI inflation retreated to its previous level with a 30bps decline to 23.2% in February 2024 (IC Insights: 23.9%). The drop in inflation was aided by moderation in price pressures for influential items in non-food inflation while food inflation experienced a much broader decline, albeit mostly for less-influential items.

Food inflation came in 10bps lower at 27.0% y/y, helped by lower inflation for Ready-made food (25.3% | -70bps), Cereal (18.8% | -170bps), and Live animals & meat (27.9% | -110bps). In all, we note disinflation for 12 out of the 15 sub-classes of food inflation. However, the remaining three sub-classes witnessed higher inflation with influential items such as Vegetables & tubers (37.9% | +210bps) leading the upward charge to mute the decline in food inflation.

Non-food inflation witnessed a faster decline of 50bps to 20.0% y/y, on the back of lower inflation for the heavily-weighted Transport (3.5% y/y | -210bps), Clothing & footwear (22.5% y/y | -30bps), and Education services (19.7% y/y | -10bps). In our view, the inflation for transport was mainly contained by the year-on-year decline in ex-pump prices as the subdued global energy prices dampened the impact of year-on-year FX adjustments. In the past 12-months, we observed a 2.4% y/y decline in ex-pump prices of diesel. We believe this helped to weaken transport inflation while capping the rise in inflation for Housing, utilities, & other fuels.

Although the drop in headline inflation came against our forecast uptick of 40bps in February 2024, we observe early indication of our anticipated non-linearity in the disinflation process for 2024. In our outlook report for FY2024 - [Readying for Policy Pivot](#) - we opined that inflation will continue its downturn in 2024, but with a non-linear trend as we foresaw bumps in the course of the year.

DISAGGREGATED CONSUMER PRICE INFLATION



We see an inflation spike ahead in March

Notwithstanding the pleasant surprise in February 2024, we foresee an upsurge in annual inflation for March 2024, largely due to unfavourable base effect. In March 2023, the CPI level witnessed an unexpected decline to record a rare month-on-month deflation of 1.2%. However, we do not anticipate another decline in the CPI level for March 2024 as we consider last year's CPI contraction a one-off, ostensibly reflecting price reduction for items with shorter shelf life. These contrasting year-on-year movements in the CPI level will create unfavourable base effect for the annual headline inflation in March 2024.

Additionally, our analysis of recent trend in the month-on-month inflation rates for food and non-food items suggests lingering inflation risk. While favourable base effect suppressed the annual inflation rate, we observe sustained increase in the m/m food inflation since November 2023. Over the same period, the m/m non-food inflation continued to oscillate sideways.

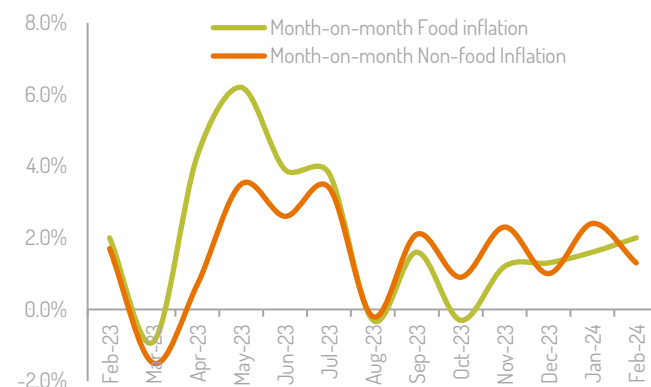
Against the backdrop of unfavourable base effect, a 5.0% y/y increase in diesel prices, and potential pass-through of recent Cedi depreciation, we forecast a 280bps jump in headline inflation to 26.0% in March 2024. However, we expect the month-on-month inflation to decline for a second consecutive month to 1.0%.

We see a "Hold" on the policy rate this month

Following the surprise cut in the policy rate to 29.0% at the January 2024 MPC meeting, we observed intensified pressure on the Ghanaian Cedi while the post-MPC inflation prints showed little progress.

Our year-start MPC expectation was for a first rate cut in March 2024. However, we believe the authorities have already frontloaded our March expectation in January 2024. Against this backdrop and amidst the elevated inflation profile in 1Q2024, we expect the MPC to leave the policy rate unchanged at the March 2024 meeting.

TREND IN MONTH-ON-MONTH INFLATION





For more information contact your IC representative

Business Development & Client Relations

Derrick Mensah

Head, Business Development
+233 24 415 5765
derrick.mensah@ic.africa

Kelvin Quartey

Analyst, Business Development
+233 57 6042802
Kelvin.quartey@ic.africa

Dora Youri

Head, Wealth Management
+233 23 355 5366
dora.youri@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

Portfolio Manager
+233 55 710 6971
herbert.dankyi@ic.africa

Clevert Boateng

Analyst, Risk Assets.
+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 24 220 6265
randy.mensah@ic.africa

Allen Anang

Trader, Equities
+233 54 084 8441
allen.anang@ic.africa

Daniel Asante

Trader, Fixed Income
+233 55 285 7164
daniel.asante@ic.africa

Terms of use - disclaimer - disclosure

This communication is from the Insights desk of IC Asset Managers (Ghana) LTD, a member of IC Group (IC). The message is for information purposes only and it is subject to change as it is only indicative and not binding. It is not a recommendation, advice, offer or solicitation to buy or sell a product or service nor an official confirmation of any transaction. It is directed at both professionals and retail clients. This message is subject to the terms and conditions of IC Group. IC is not responsible for the use made of this communication other than the purpose for which it is intended, except to the extent this would be prohibited by law or regulation. All opinions and estimates are given as of the date hereof and are subject to change. IC is not obliged to inform investors of any change to such opinions or estimates. The views are not a personal recommendation and do not consider whether any product or transaction is suitable for any particular type of investor.