GHANA | MACROECONOMIC UPDATE | INFLATION | INSIGHTS

FUNDAMENTALS

GHANA'S MARCH 2024 INFLATION:

JUST ANOTHER BUMP ON THE ROAD

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IN BRIEF

- Ghana's annual headline inflation expectedly surged in March 2024, albeit marginally short of both our estimate and the market consensus for the month under review. Headline inflation quickened by 260bps to 25.8% year-on-year in March 2024, slightly lower than our projected 26.0% and the market consensus of 26.4%.

- The re-acceleration in inflation was broad-based and culminated in a 260bps increase each for food inflation (29.6% y/y) and non-food inflation (22.6% y/y), reflected in a similar surge in the annual headline inflation. In our view, the upswing in the March 2024 annual inflation mostly reflects the impact of unfavourable movements in the CPI level against the comparable month of 2023. In addition to the unfavourable base effect, we observed renewed push from higher ex-pump petroleum prices with the pass-through of recent exchange rate depreciation starting to elevate price pressures.

- Our estimations suggest that the 10.6% YTD depreciation of the Ghanaian Cedi could elevate Ghana's headline inflation profile by between 80bps – 100bps at end 2024 as the FX pressures pass-through higher transport fares, utility tariffs, and imported items. In the March 2024 CPI data, transport inflation witnessed the steepest rise in its share of headline inflation, climbing from the 11th most influential item to the 8th position, with the planned hike in fares posing more upside. Consequently, we revise our FY2024 inflation forecast range to 16.9% ± 1.0pp (vs 16.1% ± 1.0pp in our FY2024 outlook report published late last year).

- Despite the slightly elevated upside risk to inflation, our revised forecast maintains our expectation for a generally non-linear disinflation path in 2024 and view the March upsurge as a transitory bump on the disinflation journey. In 2Q2024, we expect a stronger favourable base effect to douse the aforementioned upward pressure while the recent liquidity tightening by the BOG eases the FX pressure with a tailwind for disinflation. We thus expect a decline in the April 2024 inflation to 24.6% y/y while the m/m rate ticks up to 1.4%.

Unfavourable base effect stokes price noise

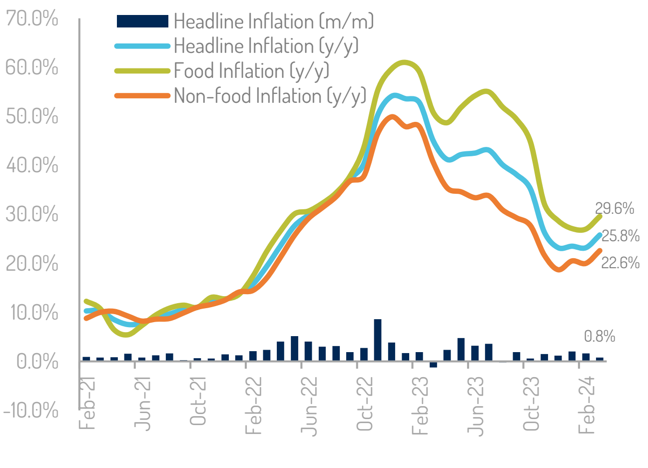
Ghana's annual headline inflation expectedly surged in March 2024, albeit marginally short of both our estimate and the market consensus for the month under review. Headline inflation quickened by 260bps to 25.8% y/y in March 2024, slightly lower than our projected 26.0% and the market consensus of 26.4%.

In our view, the upsurge in the March 2024 annual inflation mostly reflects the impact of unfavourable movements in the CPI level against the comparable month of 2023 with FX and energy prices adding renewed upside. Specifically, we observed a 0.2% month-on-month decline in the CPI in March 2023 whereas the March 2024 CPI increased by 0.8% m/m. This contrasting CPI movements created an unfavourable base effect in the computation of the year-on-year inflation for March 2024, underpinning the upsurge.

The re-acceleration in inflation was broad-based as 12 out of the 13 divisions witnessed higher inflation. The widespread pressure culminated in a 260bps increase each for food inflation (29.6% y/y) and non-food inflation (22.6% y/y), reflected in a similar upsurge in the annual headline inflation.

Food inflation was driven by the heavily-weighted inflation for vegetables & tubers (41.1% | +320bps), ready-made food (28.1% | +280bps), fish & other seafoods (36.6% | +440bps), and live animals & meat (31.5% | +360bps). Non-food inflation was also propelled by housing, utilities & other fuels (24.9% | +200bps), and education services (23.7% | +400bps). Overall, we attribute the bulk of the inflation re-acceleration to unfavourable base effect as the CPI level returned to normal trend growth this year compared to the unexpected decline witnessed in March last year.

DISAGGREGATED CONSUMER PRICE INFLATION



SOURCE: GHANA STATISTICAL SERVICE

.... there is also a case of renewed upside pressure

In addition to unfavourable base effect, we observed renewed push from higher ex-pump petroleum prices with the pass-through of recent exchange rate depreciation starting to elevate price pressures. During the March 2024 CPI window, we observed a 12.9% y/y depreciation in the Ghanaian Cedi against the US Dollar, which partly explains the 5.0% y/y increase in diesel prices. Consequently, transport inflation quickened by 440bps to 7.9% y/y in March 2024, with the near-term outlook tilted to the upside.

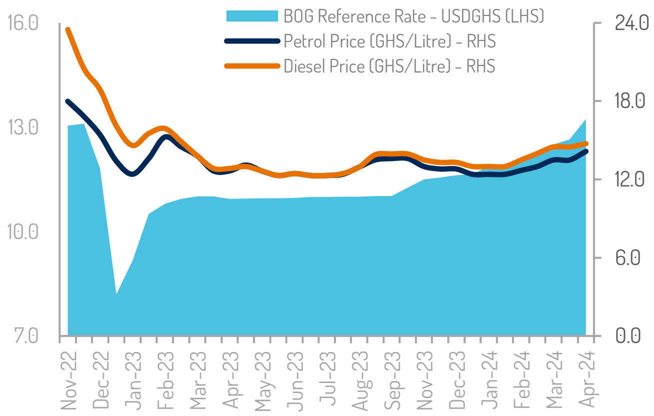
Our estimations suggest that the 10.6% YTD depreciation of the Ghanaian Cedi could elevate Ghana's annual inflation profile by between 80bps – 100bps at end 2024 as the FX pressures pass-through higher transport fares, utility tariffs, and imported items. In the March 2024 CPI data, transport inflation witnessed the steepest rise in its share of headline inflation, climbing from the 11th most influential item to the 8th position, albeit remaining below its October 2023 peak of 2nd position. With the start of negotiation between commercial transport owners' union and the Ministry of Transport for a potential 20% hike in fares, we foresee upside risk in the months ahead. Consequently, we revise our FY2024 inflation forecast range to 16.9% ± 1.0pp (vs 16.1% ± 1.0pp in our FY2024 outlook report published late last year).

All said and done, this looks like just another bump on the road

Despite the slightly elevated upside risk to inflation, the spike in March 2024 was largely expected on the back of unfavourable base effect. We maintain our expectation for a generally non-linear disinflation path in 2024 and view the March upsurge as a transitory bump on the disinflation journey.

In 2Q2024, we expect a stronger favourable base effect to douse the aforementioned upward pressure while the recent liquidity tightening by the BOG eases the FX pressure with a tailwind for disinflation. We thus expect a decline in the April 2024 inflation to 24.6% y/y (-120bps) while the m/m rate ticks up to 1.4%.

EXCHANGE RATE AND PETROLEUM PRICE DYNAMICS



SOURCES: GOIL, BANK OF GHANA, IC INSIGHTS

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