

FUNDAMENTALS

GHANA'S MAY 2024 INFLATION: THE COOL CURRENT OF BASE EFFECT

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IN BRIEF

- Headline inflation fell at a much faster pace compared to the decline in the prior month, tumbling by 190bps to 23.1% year-on-year in May 2024. Despite the relatively faster decline in the annual rate, the 23.1% print for May 2024 turned out hotter than both our expectation of 22.1% and the market expectation of 21.7%. This emphasizes a more cautious disinflation outlook than the market had anticipated, which could sustain the sluggishness in yield decline amidst the FX uncertainty.
- As expected, the favourable base effect in the annual CPI became more pronounced in May 2024, acting as a cool current on the impact of higher energy and transport costs in domestic prices. Our analysis revealed that the favourable base effect was occasioned by the belated implementation of taxes and levies in May 2023 as part of the IMF programme, which significantly pushed up the CPI in May to July 2023.
- Food inflation provided the main tailwind for the inflation decline, plummeting by 420bps to 22.6% y/y as 14 out of the 15 sub-classes witnessed sharp moderation in annual inflation. In our view, this reflects the broad-based nature of the favourable base effect as the impact of the 2023 excise taxes on sweetened beverages, spirits, and tobacco products waned. Non-food inflation however inched up by 10bps to 23.6% y/y on the back of a surge in Transport inflation, restraining the decline in the headline rate.
- We foresee upward pressure from the ongoing pass-through of the Cedi's depreciation to energy prices, transport cost, and general price levels. However, our CPI forecast for June 2024 indicates the lingering impact of favourable base effect as the tax-induced shock to the CPI level in June 2023 has fully diminished in the 12-months period. This suggests a comparatively slower increase in the CPI level in June 2024, culminating in a forecast decline in headline inflation by 120bps to 21.9% y/y.

Deceleration anchored on base effect

Ghana's annual CPI inflation expectedly came in lower for the second consecutive month to hit a 26-month low in May 2024, representing the first consecutive drop in annual inflation thus far in 2024. Headline inflation fell at a much faster pace compared to the decline in the prior month, tumbling by 190bps to 23.1% year-on-year in May 2024. Despite the relatively faster decline in the annual rate, the 23.1% print for May 2024 turned out hotter than both our expectation of 22.1% and the market expectation of 21.7%. This emphasizes a more cautious disinflation outlook than the market had anticipated, which could sustain the sluggishness in yield decline amidst the FX uncertainty.

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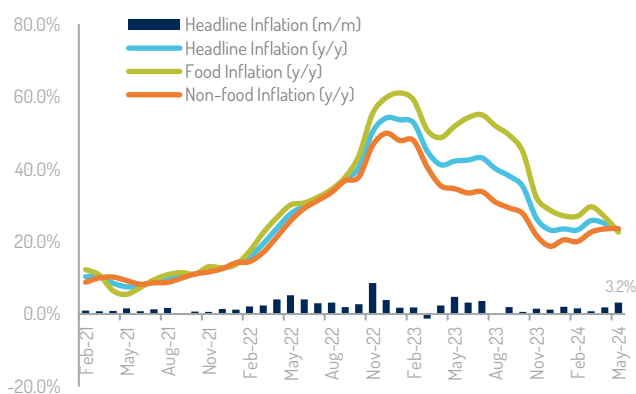
Non-food inflation also witnessed the benefit of a favourable base as 10 out of the 12 sub-classes recorded sharp disinflation. However, these inflation declines were outweighed by the uptick in inflation for the other two sub-classes, specifically transport and education services, which together account for almost 30.0% of the non-food inflation weight. Transport inflation surged by 1,000bps to 20.3% y/y while inflation for Education services rose by 180bps to 25.2% y/y. In our opinion, the higher transport inflation reflects the 20.0% hike in fares for public transportation in late-April 2024, which spilled over into the May 2024 inflation print due to the overlap in the CPI data collection window. We also believe the inflation for education services reflects the spending pressure related to the start of a new term for the 2023/24 academic year with the elevated FX pressure pushing up FX-denominated school fees and stationery prices. As a result of the offsetting movements of the 12 sub-classes, non-food inflation inched up by 10bps to 23.6% y/y in May 2024.

We expect another disinflation in June 2024, but at a slower pace

Expectedly, the sequential inflation rate ticked higher by 140bps to 3.2% m/m in May 2024, with price pressures in both food and non-food items reflecting ongoing FX pass-through, higher energy prices, and transport fares. We expect this price pressure to pose upside risk to headline inflation in June 2024, especially as petrol and diesel prices respectively surged by 17.3% and 18.5% y/y (+1.4% and +0.7% m/m respectively).

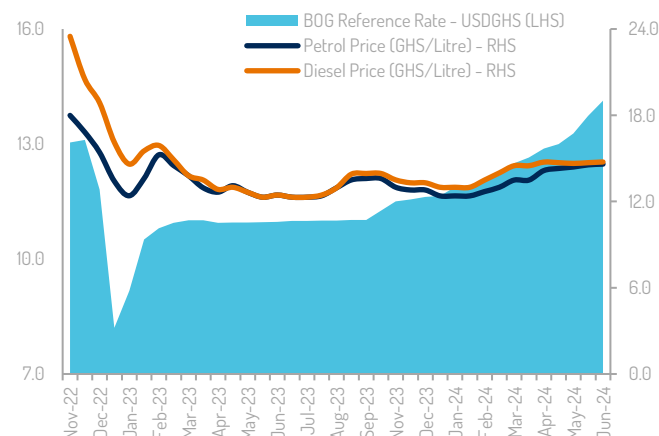
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DISAGGREGATED CONSUMER PRICE INFLATION



SOURCE: GHANA STATISTICAL SERVICE

EXCHANGE RATE AND PETROLEUM PRICE DYNAMICS



SOURCES: GOIL, BANK OF GHANA, IC INSIGHTS



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