GHANA | MACROECONOMIC UPDATE | INFLATION | INSIGHTS

FUNDAMENTALS

GHANA'S JUNE 2024 INFLATION: CANARY IN THE COAL MINE

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IN BRIEF

- Annual CPI inflation declined for the third consecutive month in June 2024, edging down by 30bps to 22.8% year-on-year (vs the median expectation of 22.5%). On a sequential basis, headline inflation also came in 30bps lower at 2.9% m/m in June 2024. We drilled deeper into the CPI data and observed that the sluggish disinflation in June 2024 was underpinned by the impact of seasonality in prices of agrarian products as lean supply in the planting season propelled food prices.

- Although our disinflation expectation was realized, the magnitude of decline was more sluggish (-30bps) than we had projected for the annual print (-120bps). Specifically, the realized decline translated into only 25.0% of our forecast disinflation for June 2024 and represents the third consecutive month of slower-than-expected disinflation. This emphasizes the elevation in Ghana's inflation profile, which suggests a canary in the coal mine against the authorities' year-end inflation target of 13.0% – 17.0% under the IMF's Monetary Policy Consultation Clause.

- While we stress that it may be premature to judge the risk of protracted divergence between food and non-food inflation as observed between May and July last year, we are equally minded by the impact of seasonality in food prices. We note that the annual closed fishing season commenced on 01st July 2024 with a one-month observance for artisanal fishing and two months for industrial trawlers. This could sustain the price pressure for fish & other seafood in July before easing slightly in August 2024.

- For non-food inflation, the implementation of new utility tariffs and higher ex-pump petroleum prices with effect from 01st July 2024 will pose a double whammy of upside risk to annual and monthly inflation. During the second quarter utility tariff review, the sector regulator indicated that the electricity tariff hike of between 3.45% and 5.84% will still leave a revenue under-recovery of GHS 906.2mn to be recovered in subsequent quarters. In our view, this raises the upside risk to inflation in 2H2024, subject to downward pressure from food harvest in late-3Q2024. **Against this backdrop, we raise our FY2024 annual inflation forecast by 340bps to between 19.3% – 21.3%.**

A lethargic disinflation

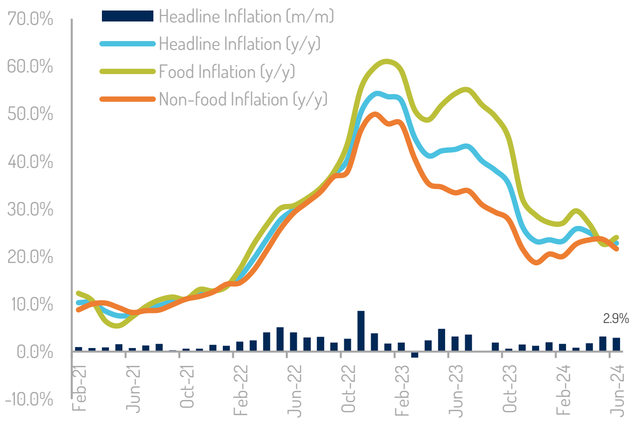
Annual CPI inflation declined for the third consecutive month in June 2024, edging down by 30bps to 22.8% year-on-year (vs the median expectation of 22.5%). On a sequential basis, headline inflation also came in 30bps lower at 2.9% m/m in June 2024.

We had anticipated the cooling impact of favourable base effect to stretch into the June 2024 CPI print against the backdrop of last year's tax measures, the impact of which has fully decayed in the consumer price index. While this disinflation expectation was realized, the magnitude of decline was more sluggish (-30bps) than we had projected for the annual print (-120bps). Specifically, the realized decline translated into only 25.0% of our forecast disinflation for June 2024 and represents the third consecutive month of slower-than-expected disinflation. This emphasizes the elevation in Ghana's inflation profile, which suggests a canary in the coal mine against the authorities' year-end inflation target of 13.0% – 17.0% under the Monetary Policy Consultation Clause.

We drilled deeper into the CPI data and observed that the sluggish disinflation in June 2024 was largely underpinned by the impact of seasonality on prices of agrarian products as lean supply in the planting season propelled food prices.

Food inflation unexpectedly soared by 140bps to 24.0% year-on-year in June 2024, having declined sharply by 420bps in the prior month. The disaggregation revealed disinflation for 10 out of the 15 sub-classes of food inflation, indicating favourable base effect despite the impact of FX pass-through to these largely imported food items. For the other five sub-classes which recorded upturn in inflation, we opine that the prices of these food items are the most susceptible to the prevailing lean supply season. Notably, we observed inflation uptick for vegetables & tubers (42.2% y/y | +430bps), fish & other seafood (26.2% y/y | +460bps) and fruits & nuts (43.3% | +860bps). We also believe the domino effect of higher transport cost and poor distribution network exerted more upward pressure with the latter as a lingering structural issue.

DISAGGREGATED CONSUMER PRICE INFLATION



SOURCE: GHANA STATISTICAL SERVICE

Non-food inflation surprised to the downside as it posted a sharper-than-expected deceleration of 200bps to 21.6% y/y with all its 12 sub-classes witnessing a cool-off in price pressures. We observed a 130bps and 90bps decline in inflation for transport (19.0% y/y) and utilities & housing (26.0% y/y), respectively. This outcome pleasantly surprised us given the recent transport fare hikes in late-April 2024 with initial impact in the May 2024 CPI and expected spillover into June. This also came against the backdrop of a 17.3% and 18.5% y/y increase in petrol and diesel prices, respectively, as of the June 2024 CPI data collection window.

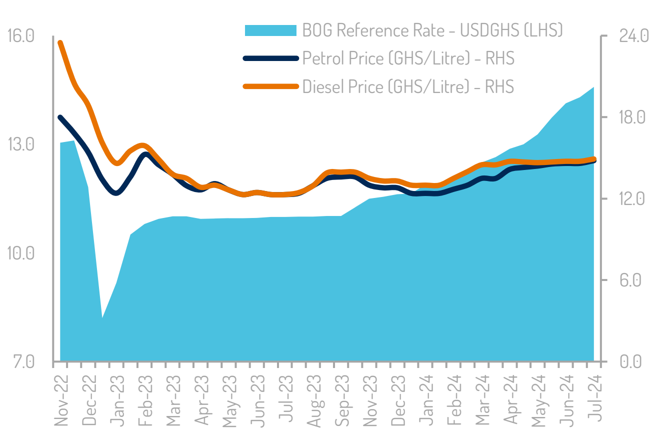
An early warning sign of exceeding the year-end upper target of 17.0%

Instructively, the June inflation print also revealed emerging signs of divergence between food and non-food inflation akin to what we observed between May and July last year. This could embed some stickiness in the annual inflation in 2H2024, especially having enjoyed a favourable base in the like period of 2023.

While we stress that it may be premature to judge the risk of protracted divergence, we are equally minded by the impact of seasonality on food prices. We note that the annual closed fishing season commenced on 01st July 2024 with a one-month observance for artisanal fishing and two months for industrial trawlers. This could sustain the price pressure for fish & other seafood in July before easing slightly in August 2024.

For non-food inflation, the implementation of new utility tariffs and higher ex-pump petroleum prices with effect from 01st July 2024 will pose a double whammy of upside risk to annual and monthly inflation. During the recent utility tariff review for July – September, the sector regulator indicated that the electricity tariff hike of between 3.45% and 5.84% will still leave a revenue under-recovery of GHS 906.2mn to be recovered in subsequent quarters. In our view, this raises the upside risk to inflation in 2H2024, subject to downward pressure from food harvest in late-3Q2024. Against this backdrop, **we raise our FY2024 annual inflation forecast by 340bps to between 19.3% – 21.3%.**

EXCHANGE RATE AND PETROLEUM PRICE DYNAMICS



SOURCE: GOIL, BANK OF GHANA

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