

FUNDAMENTALS

GHANA'S JULY 2024 INFLATION: COOLING ON PAST WINDS

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IN BRIEF

- Ghana's annual headline inflation surprised to the downside with a faster-than-expected decline of 190bps to 20.9% in July 2024 (vs our forecast decline of 80bps and consensus expectation of 130bps drop). This represents the fourth consecutive month of decline in annual inflation and marks the longest streak of disinflation since 2H2023. The sequential rate was more benign, coming in at 2.1% m/m in July 2024 (vs 2.9% in June 2024) as food inflation tumbled to 1.7% m/m (-340bps) to offset the 150bps upturn in non-food inflation to 2.4% m/m.
- Our analysis of the annual CPI data revealed the impact of favourable base effect across both food and non-food items, but with food inflation enjoying the more significant benefit of the base drift effect. Food inflation tumbled by 250bps to 21.5% y/y while non-food inflation decelerated by 110bps to 20.5% y/y in July 2024. Over the next 2 – 3 months, we expect the moderation in food inflation to continue on the back of stronger crop harvest, re-opening of artisanal and industrial fishing as well as continued stability of the Ghanaian Cedi.
- Although the sharper-than-expected decline in the July 2024 annual inflation significantly eases our concerns, we remain convinced that unfavourable base effect will nudge up the August 2024 inflation print, albeit with crop and fish harvest capping the upside. **We thus forecast annual inflation rate to edge up by 90bps to 21.8% while the m/m rate prints lower at 0.5% in August 2024**
- We estimate that the latest sharp disinflation has widened real interest rates with the ex-post real policy rate at 8.1% in July and the ex-ante real policy rate likely at 7.2% in August 2024. This could strengthen a dovish case at the next MPC meeting in September 2024. However, the dovish sentiments could be clouded by the uncertain inflation outlook relative to the seemingly ambitious year-end target under the IMF programme and the Treasury's elevated borrowing needs.

Base effect brings relief

Ghana's annual headline inflation surprised to the downside with a faster-than-expected decline of 190bps to 20.9% in July 2024 (vs our forecast decline of 80bps and consensus expectation of 130bps drop). This represents the fourth consecutive month of decline in annual inflation and marks the longest streak of disinflation since 2H2023. We also note that the latest disinflation drags annual inflation to its lowest level since March 2022 (19.4%) and opens up a slight window for a dovish sentiment at next month's MPC meeting.

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Our analysis of the annual CPI data revealed the impact of favourable base effect across both food and non-food, but with food inflation enjoying the more significant benefit of the base drift effect.

Food inflation decelerated by 250bps to 21.5% y/y as sharp and broad-based declines in 13 out of the 15 sub-classes reflected the impact of both favourable base and the onset of crop harvest. Heavy-weight items such as vegetables & tubers (41.5% y/y | -70bps), ready-made food (18.6% y/y | -170bps), cereals (9.3% y/y | -290bps) and fish & other seafoods (22.8% y/y | -340bps) witnessed modest disinflation. We attribute the drop in inflation for these items to the start of crop harvest, helped by favourable weather conditions during the 2024 planting season, despite higher input cost. Over the next 2 - 3 months, we expect the moderation in food inflation to continue on the back of stronger crop harvest, re-opening of artisanal and industrial fishing, as well as continued stability of the Ghanaian Cedi.

Non-food inflation surprisingly declined for the second straight month in July 2024 despite the upward pressure from higher utility tariff in the final week of the CPI data collection window. Notwithstanding a 260bps upsurge in inflation for housing & utilities (28.6% y/y), non-food inflation fell by 110bps to 20.5% y/y in July 2024, on the back of sharp disinflation for 10 out of the 12 divisions of non-food items. We believe this reflects the lingering impact of favourable base effect in the past 3 - 4 months.

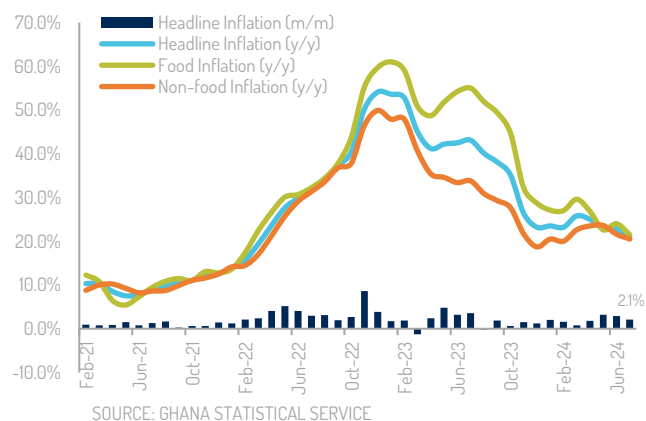
We see higher inflation print in August due to unfavourable base effect

Although the sharper-than-expected deceleration in the July 2024 annual inflation significantly eases our concerns, we remain convinced that the August print will witness an upturn, stressing the need for caution in lower inflation and interest rate outlooks.

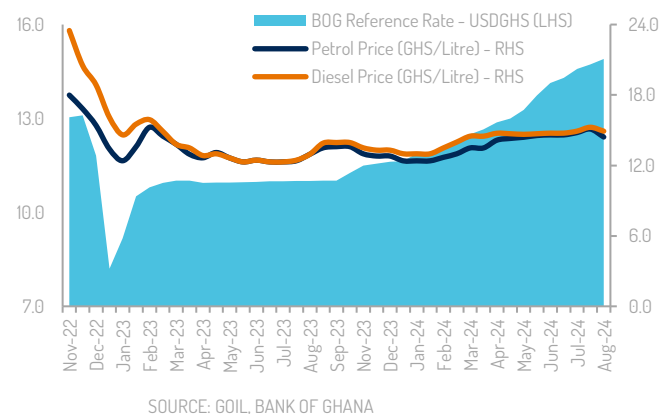
In August 2023, we observed an unexpected contraction in the CPI levels by 0.4pts, which resulted in a 300bps decline in annual inflation. Given the unconventional nature of a CPI contraction in August, we expect an increase in the CPI level for August 2024, albeit a modest rise capped by food harvest. We opine that even a slight increase in the August 2024 CPI will nudge up annual inflation. Additionally, we foresee upside risk from the spillover effect of the utility tariff hike in July 2024 although the relatively stable Cedi could partly numb the impact. Consequently, we forecast annual inflation at 21.8% (+90bps) while the m/m rate declines to 0.5% in August 2024.

The wider real interest rate opens door for rate cut but the abundance of caution and Treasury's borrowing needs will limit the dovish sentiments. The inflation outlook remains highly cautious amidst the lingering upside risk, especially with favourable base effect having been exhausted while election-related spending is expected in 4Q2024. However, we estimate that the latest disinflation has widened the real interest rates with the ex-post real policy rate at 8.1% in July and the ex-ante real policy rate likely at 7.2% in August 2024. This could strengthen a dovish case at next month's MPC meeting, albeit with the MPC mindful of the IMF target amidst Treasury's high financing need.

DISAGGREGATED CONSUMER PRICE INFLATION



EXCHANGE RATE AND PETROLEUM PRICE DYNAMICS





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