

RECENT FOOD INFLATION TRENDS IN GHANA

Preamble:

- A. In discussions between the staff of the IMF and the BOG on the factors that had contributed to rising inflation over the period 2007-08 under the Inflation Targeting (IT) framework of the BOG, Fund staff drew attention to what they observed to be a typically more aggressive monetary tightening by IT peer countries than Ghana. BOG countered that these countries had also failed to achieve their inflation targets “ owing to the global food and fuel price shocks”

Inflation is creeping up around the globe. But in many countries, ordinary folks as well as investment analysts suspect that governments are fiddling the figures for political reasons, and that the true inflation rate is much higher than officially reported. Argentina's rate is the hardest to swallow. According to the government, consumer prices rose by 10.9 percent in the year to December, but private-sector economists estimate the true increase to be at least twice as much. In China, too, many claim that the government's figures hugely understate increases in the cost of living.

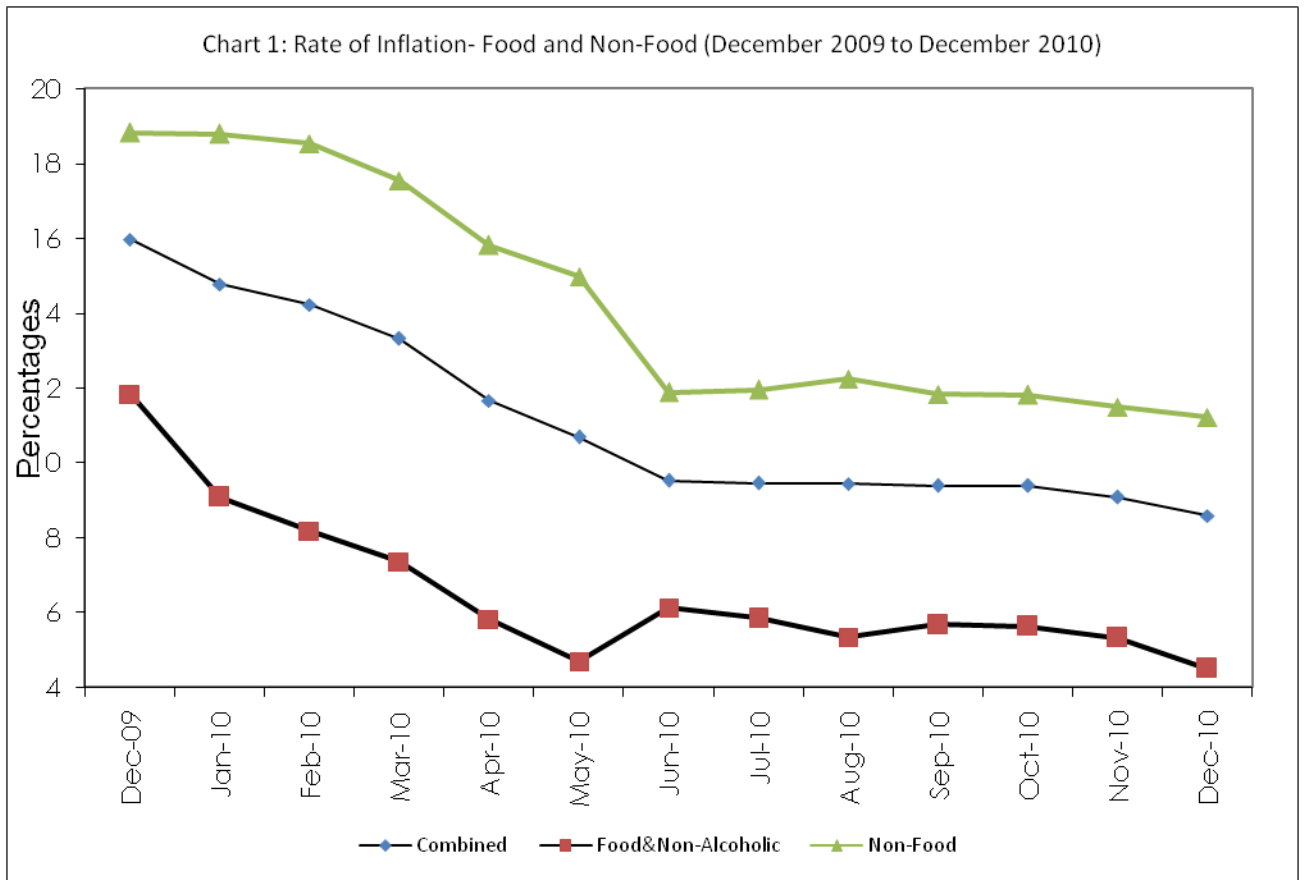
Economists disagree on the best way to measure consumer-price inflation. How often should the relative weights be changed? One reason why the Chinese may think their cost of living is rising so quickly is that consumers are moving upmarket – for example, from the local dumpling stand to a restaurant. That increases households' spending but not inflation.....The Economist January 29th – February 4th 2011 page 66

In its publication –**Ghana's Stabilization Programme 2009-2012: Current Emerging Issues**, CEPA noted that Ghana Statistical Service (GSS) announced a marginal fall in the year-on-year inflation rate from 9.5 percent in July 2010 to 9.4 percent in August – 0.1 percentage points lower than the July rate. This has largely been attributed to favourable imported food inflation, on account of:

- relatively stable and indeed, strengthening Ghana cedi against all three major international currencies, namely the US dollar, the pound sterling and the euro; and
- the food sub-groups in the food and non-alcoholic beverage group, namely bread and cereals; and the vegetables (including potatoes and other leafy vegetables), which placed strong downward pressure on inflation. Noticeably, the import content of these two sub-groups is particularly high.

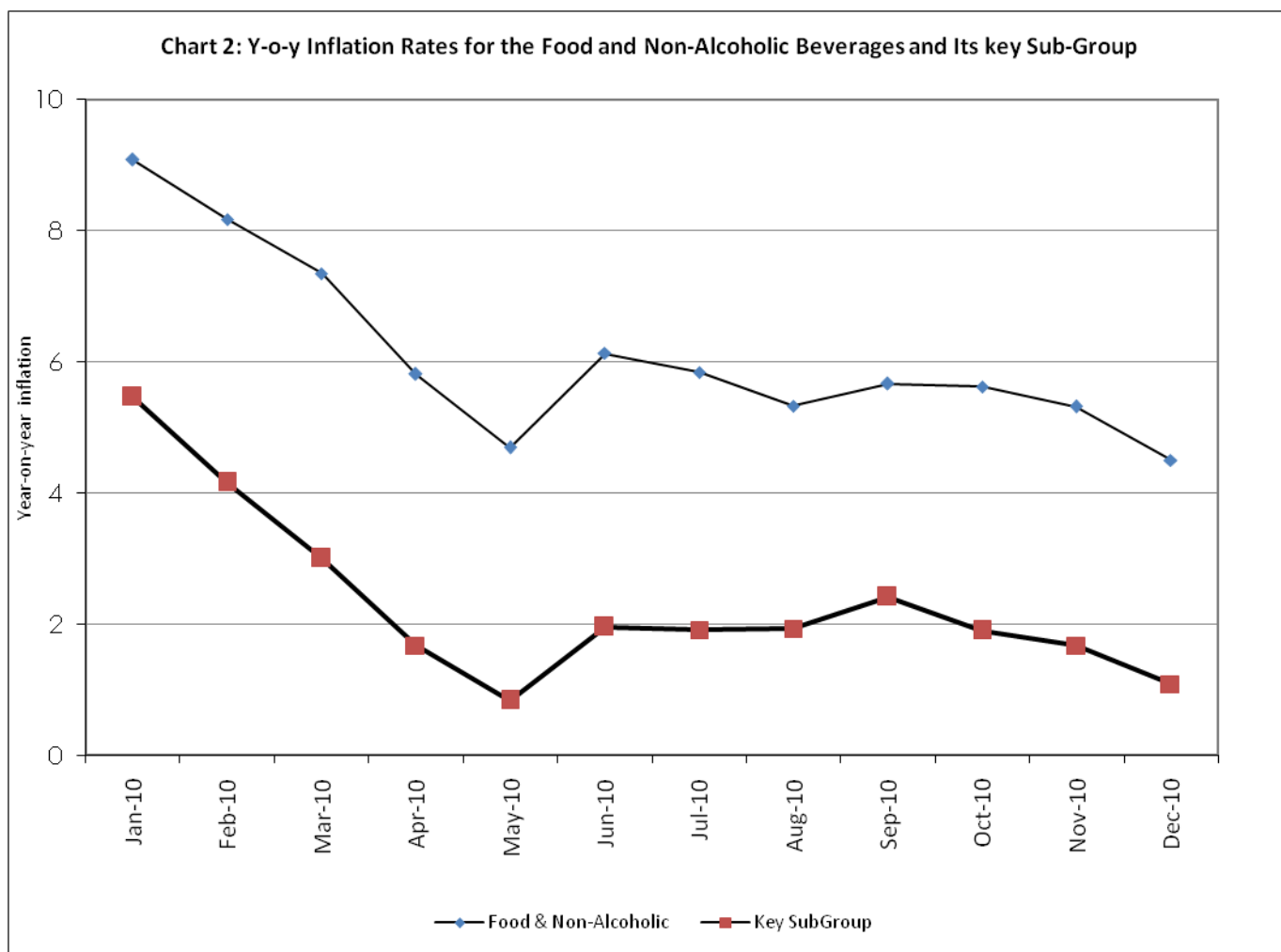
The monthly and year-on-year declines in inflation for August were welcome if unexpectedly higher than CEPA had forecast. CEPA had forecast a year-on-year inflation rate of 9.9 percent per annum – 0.5 percentage points higher than the 9.4 percent actually realized. *The CEPA forecast for August, if it had been realized, would still have remained in single digits but above the July rate, and would have signaled the possible onset of a trend reversal in the year-on-year inflation rate* after thirteen months of successive declines (since the peak of 20.7 percent per annum for June 2009).

- Chart 1 shows that both Food and Non-Alcoholic Beverages inflation and Non-Food inflation trended downwards in the course of 2010. In terms of levels, Food inflation remained lower over the period. As a result the combined inflation – the weighted average of the two – could be described as having being “dragged down” by Food inflation.



- An examination of the contribution of the 11 subcomponents of the Food inflation shows that Food inflation, in turn, was strongly influenced by its key sub-group – Fish, Vegetables, Bread and Cereals – referred to as the key subcomponent. The sub-component has a weight of 68 percent and had the lowest inflation rate among all the sub-components in the course of 2010.

Chart 2 shows that the Food and Non-Alcoholic Beverages and its key sub-group (Fish, Vegetables, Bread and Cereals) trend together.



The fitted regression line is given by the equation as:

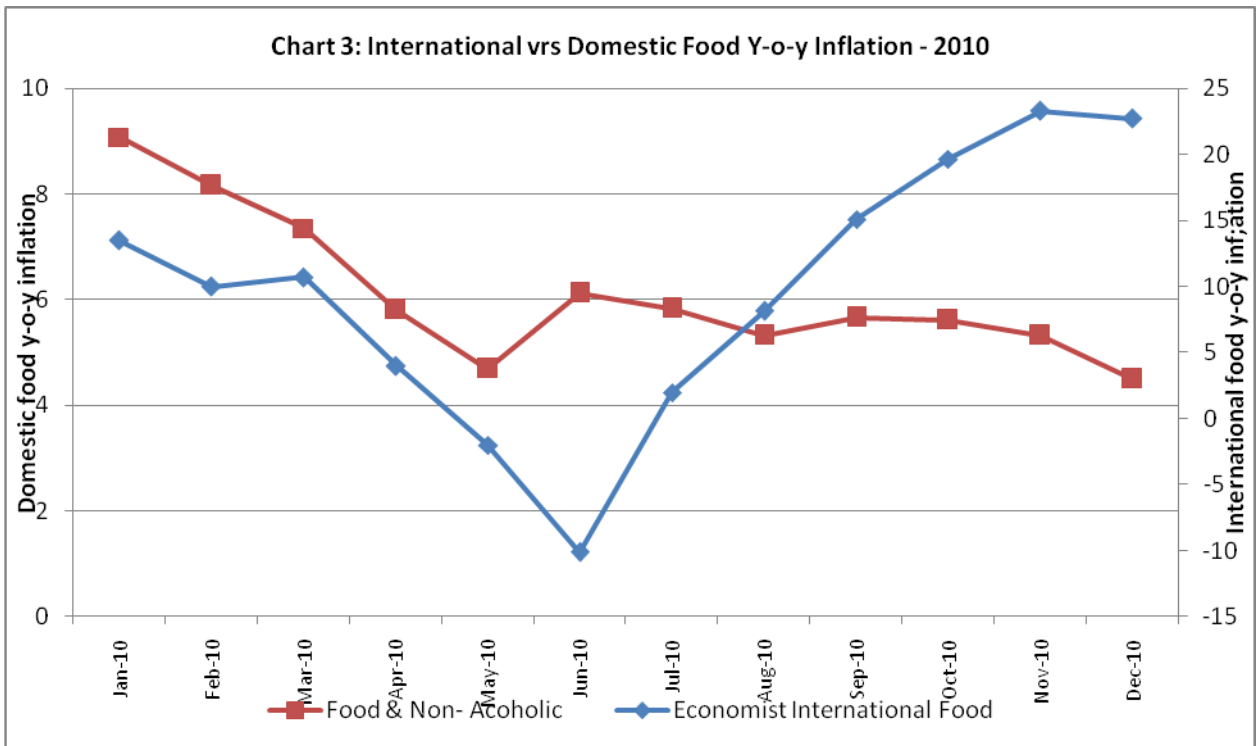
Food inflation = $3.738 + 1.022$ (key subgroup); the correlation coefficient is 0.969.

CEPA's problem is that in the past both the GOG and the IMF staff accepted rising international food prices as one of the factors contributing to rising inflation in Ghana. In this regard, both The Economist and FAO food inflation in 2010 pointed to a rising trend, and this has been confirmed by the World Bank.

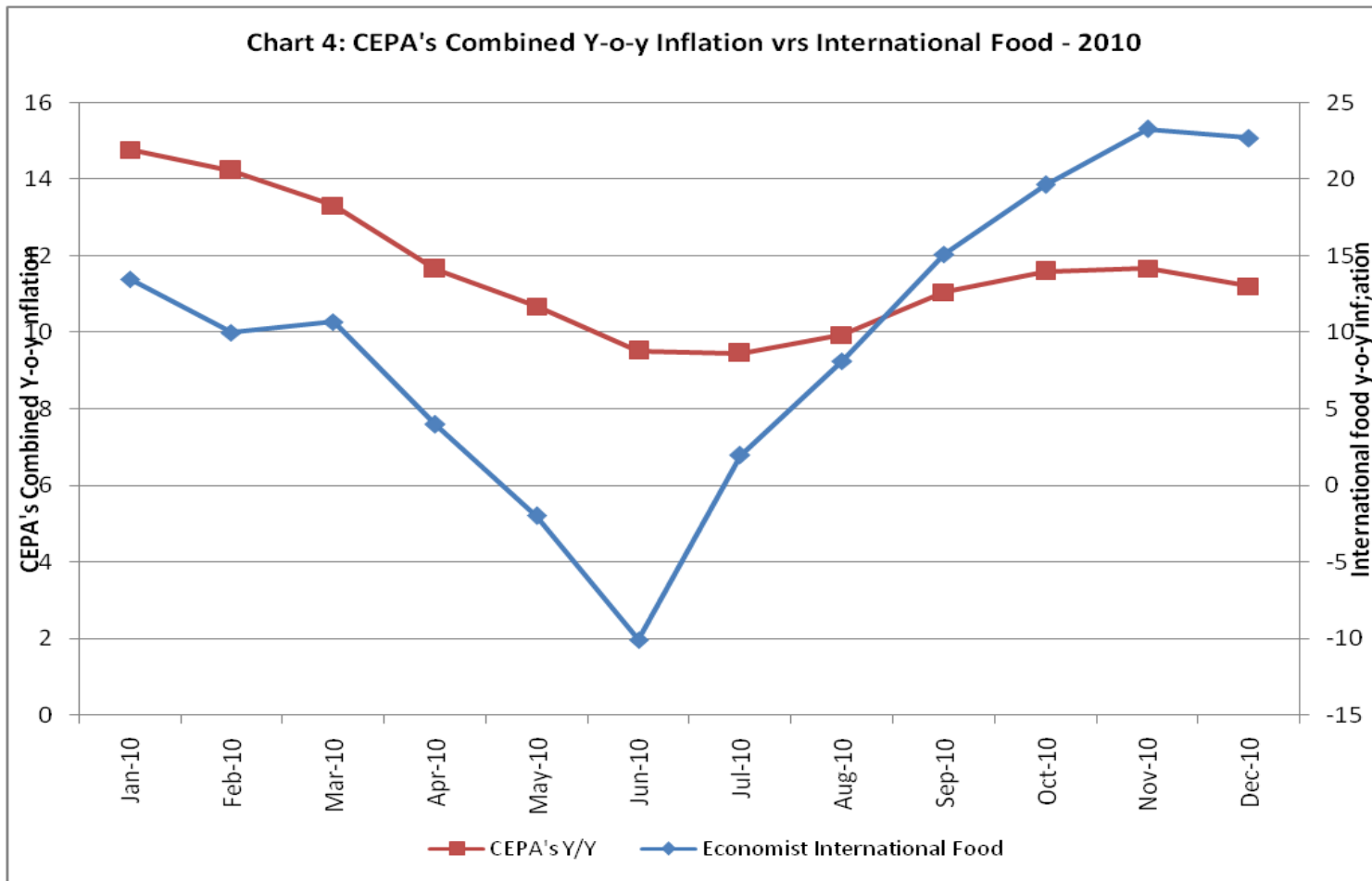
As noted above, CEPA forecast of inflation trend in 2010 pointed to a trend reversal starting from August 2010 but this did not happen although both FAO and The Economist food price inflation showed trend reversal. In an earlier work,

CEPA had shown that international food prices contributed about 24 percent to local inflation.

Chart 3 shows the movement of the international food inflation in 2010 as compared to Bread and Cereal inflation – the main driver of food inflation in Ghana.



Finally Chart 4 compares CEPA's inflation forecast for 2010 with international food inflation.



In the event of the above analysis, it is necessary for GSS to explain to the Ghanaian public if local food production has been so good in Ghana as to negate the impact of the rising international food price increases. The World Bank noted that "the transmission of higher global maize prices is varied and has depended significantly on domestic harvest conditions. Countries in Sub-Sahara Africa have benefited from excellent maize harvests, which led to a sharp fall in prices". The World Bank reported that Cameroon enjoyed a 15.0 percent decline in year-on-year wheat prices in 2010, while Mozambique had a 14 percent increase in rice prices and a 39percent decline in cassava prices. Kenya and Ethiopia enjoyed a decline of 8 percent in maize prices in 2010.

Recommendation and Conclusion

The concern with food inflation derives from the issue of poverty. Poor people are known to spend the bulk of their income on food. Consequently food inflation could easily plunge them in greater poverty leading to their sale of productive assets or increased indebtedness.

Reported food price increases, as noted by the World Bank, "Global food prices continue to rise....Higher global wheat prices have fed into significant increases in local wheat prices in many countries.....These food price rises create macro vulnerabilities, particularly for countries with a higher share of food imports and limited fiscal space, as well as increase in poverty. Estimates of those who fall into, and move out of, poverty as a result of price rise since June 2010 show there is a net increase in extreme poverty of about 44 million people in low- and middle-income countries" (Food Price Watch, February 2011).

CEPA's recommendation is to urge the GSS to create a local food index (cassava, maize, cocoyam, millet, rice) in its basket that can pick up domestic food production leading to greater clarity.