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MINERALS COUNCIL
SOUTH AFRICA

Mining Input Cost Inflation Eases, but Energy-Related Pressures Persist

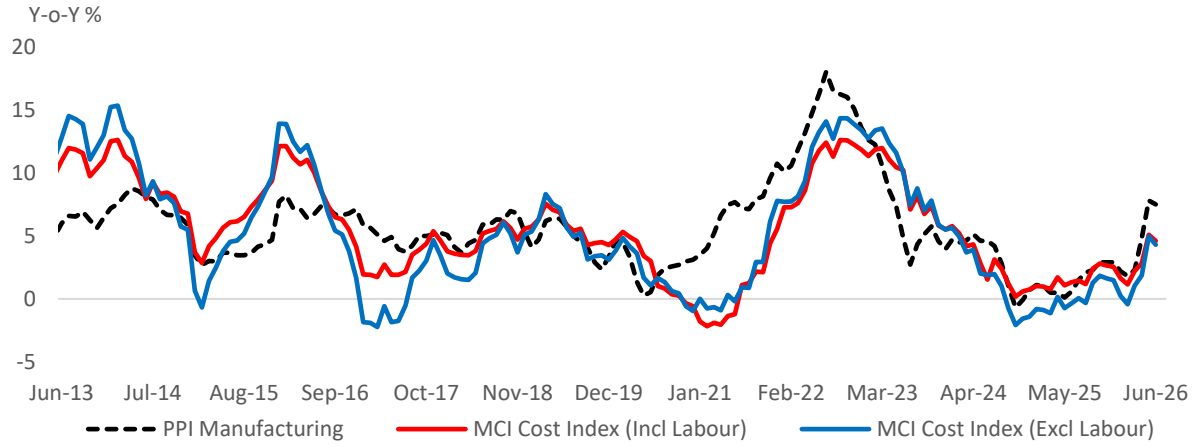
Mining input cost inflation moderated in June, largely reflecting temporary relief from lower global energy prices following the brief de-escalation of conflict in the Middle East. The Minerals Council's **Mining Composite Input (MCI) Cost Index** slowed to **4.8% year-on-year (y-o-y)**, down from a revised 5.4% in May.

Despite this easing, Brent crude oil and domestic fuel prices remained significantly higher than a year ago, meaning that **coke and refined petroleum products** continued to be the largest contributors to annual mining input cost inflation. While the ceasefire in June provided a temporary respite, hostilities have since resumed intermittently, sustaining uncertainty in global energy markets. June also marked the start of **winter electricity tariffs**, which typically raise electricity costs by 20-30%. Consequently, electricity prices recorded a sharp month-on-month (m-o-m) increase, adding to cost pressures across the mining sector. However, the inflationary impact of coke and refined petroleum products remained the dominant driver of input cost growth, with varying degrees of exposure across commodities depending on their reliance on petroleum-based inputs.

Looking ahead, July and August will reflect full months of winter electricity tariffs, while September will capture a half-month effect, as was the case in June. Electricity costs are therefore expected to remain a significant source of input cost pressure in the near term. Prospects for fuel-related costs remain uncertain and will continue to depend largely on developments in the Middle East. Following the easing of tensions in June, Brent crude oil prices declined to **US$84.5 per barrel** from **US$103.8 per barrel** in May. Prices remained broadly stable in July at **US$84.0 per barrel**, while August has seen some further easing. Whether this decline will be sustained remains unclear. Overall, elevated fuel prices relative to year-earlier levels continue to exert upward pressure on mining input costs, particularly for commodities and operations highly dependent on petroleum products.

Below, we present trends in input costs, both **including and excluding labour**, together with the Producer Price Index (PPI) for final manufactured goods, which reflects the average net selling price in the manufacturing sector.

Figure 1: Total Mining Input Costs, y-o-y percentage



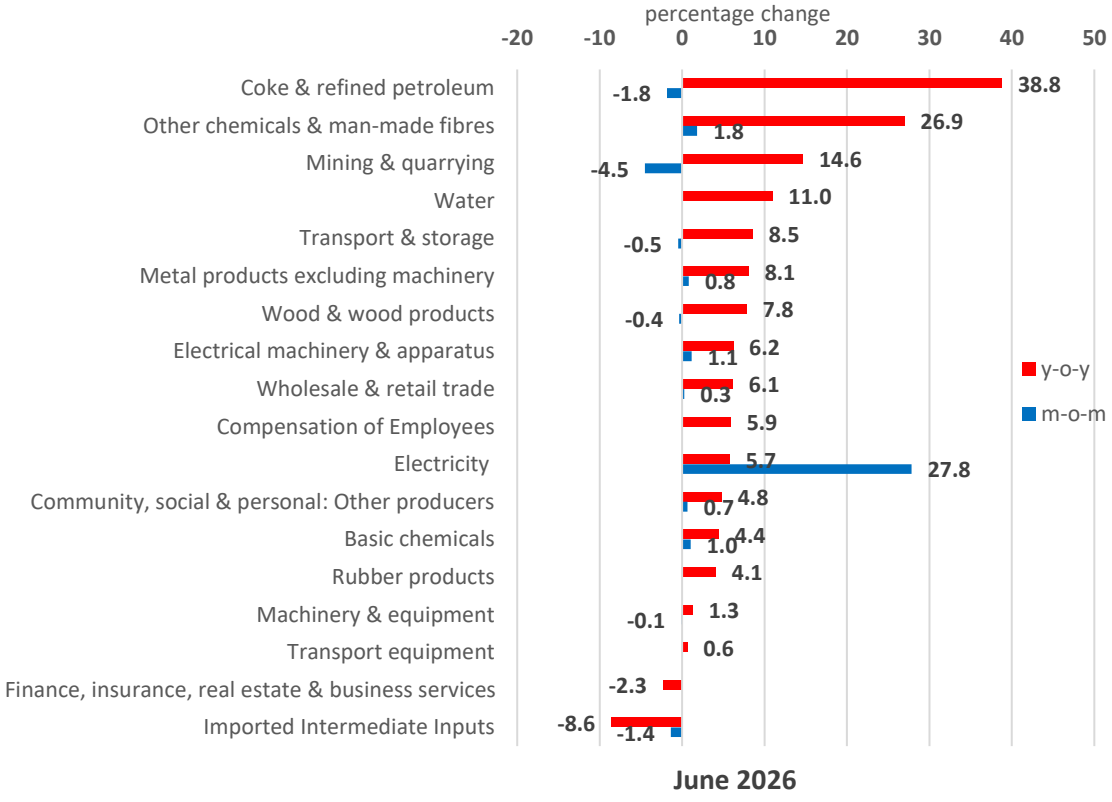
Source: Statistics SA & Minerals Council

As noted earlier, **coke and refined petroleum products** were the largest contributors to mining input cost inflation in June on an annual basis. Prices increased by **38.8% year-on-year (y-o-y)**, driven primarily by elevated crude oil prices. This translated into significantly higher fuel (diesel and petrol) costs, rising by **34.3% y-o-y**, placing additional pressure on mining sector profitability and operating costs.

The conflict in the Middle East has also contributed to higher chemical input costs. **Chemicals and man-made fibres** recorded inflation of **26.9% y-o-y**, reflecting disruptions to petroleum-based supply chains and higher feedstock costs. Products ranging from fertilisers to industrial chemicals and plastics have been affected by constraints on oil flows through the Strait of Hormuz, a critical global energy trade route.

On a month-on-month basis, however, **electricity costs** were the single largest driver of input cost inflation. The implementation of winter electricity tariffs in mid-June resulted in a **27.8% m-o-m** increase in electricity prices. The impact of these tariffs is expected to intensify in July and August, which will reflect full months of winter pricing, before gradually moderating as summer tariffs are reintroduced from September.

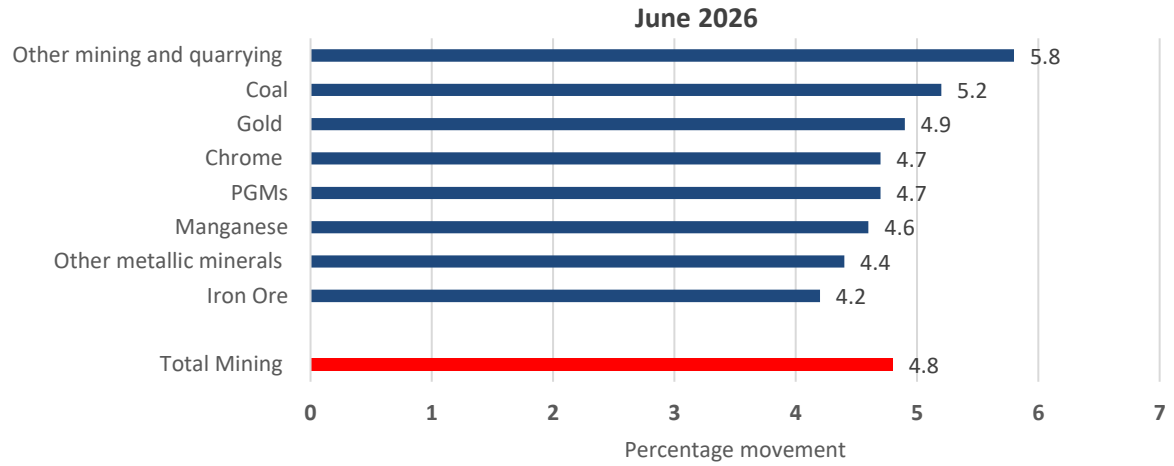
Figure 2: Monthly and Annual Change in Cost Categories in the Mining Sector



Source: Statistics SA & Minerals Council

Below, we illustrate input costs per commodity using a weighted basket that reflects the relative importance of each input.

Figure 3: Commodity-Specific Input Cost Inflation



Source: Statistics SA & Minerals Council

June's cost profile reflected the continued impact of elevated **coke and refined petroleum product prices**, which remained the dominant driver of mining input cost inflation. **Other mining and quarrying** and **coal mining** recorded the highest rates of input cost inflation at **5.8%** and **5.2%**, respectively. These commodities are particularly exposed to fuel costs through their operational activities and the transportation of output, making them more sensitive to increases in diesel and petrol prices.

Gold and **PGM** input cost inflation reached **4.9%** and **4.7%**, respectively, reflecting the introduction of winter electricity tariffs in June. Meanwhile, **chrome** and **manganese** also experienced elevated input cost inflation, largely due to their dependence on transportation networks, particularly road freight, where higher fuel prices have significantly increased operating costs.

Conclusion

While mining input cost inflation eased in June, cost pressures remain elevated. Higher fuel prices, driven by uncertainty in global energy markets, and the full impact of winter electricity tariffs are expected to keep input cost inflation elevated in the coming months, particularly for fuel- and electricity-intensive mining operations.

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