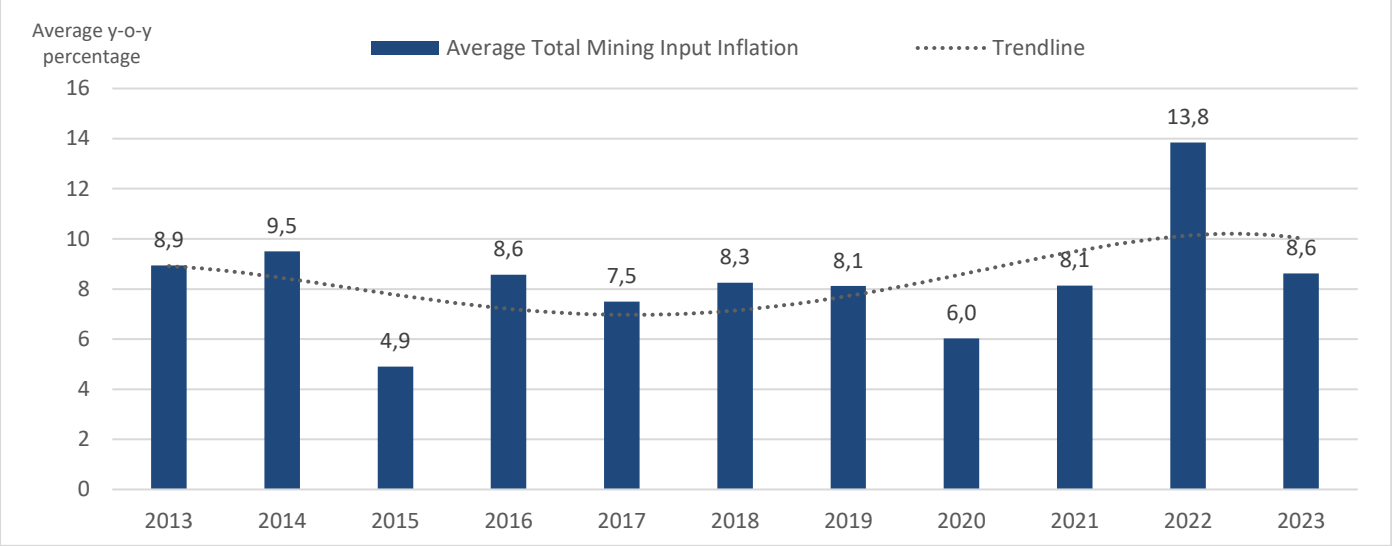
31 January 2024

MINERALS COUNCIL
SOUTH AFRICA

Update: **Mining Input Cost Inflation – Full Year 2023**

Year-on-year mining input cost inflation averaged **8.6%** in 2023, easing notably from 13.8% in 2022 (see Figure 1 below). Mining input cost inflation is returning to its long-term average (2013-19) of 8%.

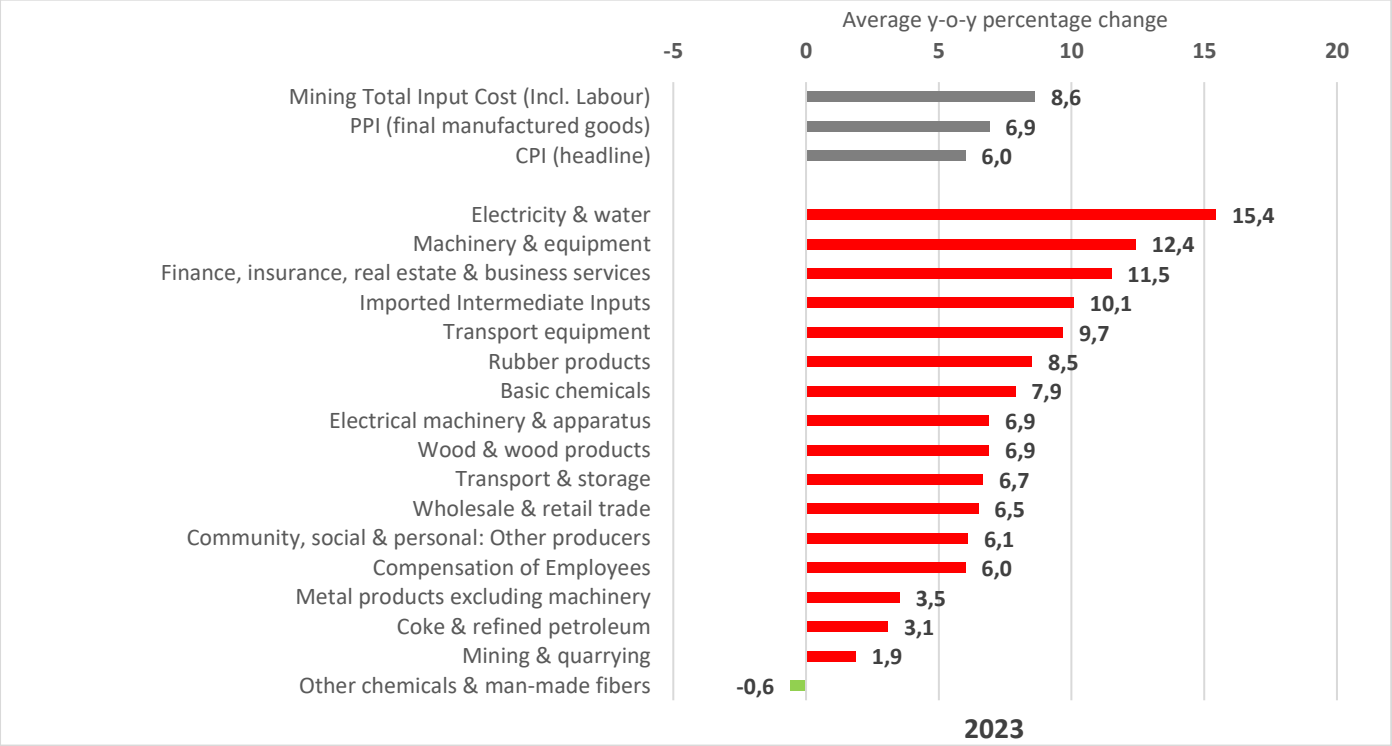
Figure 1: Total Mining Input Cost Inflation, 2013 to 2023



Source: Statistics SA & Minerals Council

Figure 2 below illustrates the averages for the contributors to overall mining input cost inflation in 2023. We illustrate the total mining input cost inflation for 2023 and the individual components that contributed to this annual headline figure. For comparison, we also show average consumer inflation (6.0%) and average producer price inflation (6.9%) for 2023.

Figure 2: Mining Input Cost Inflation Levels (per Component)



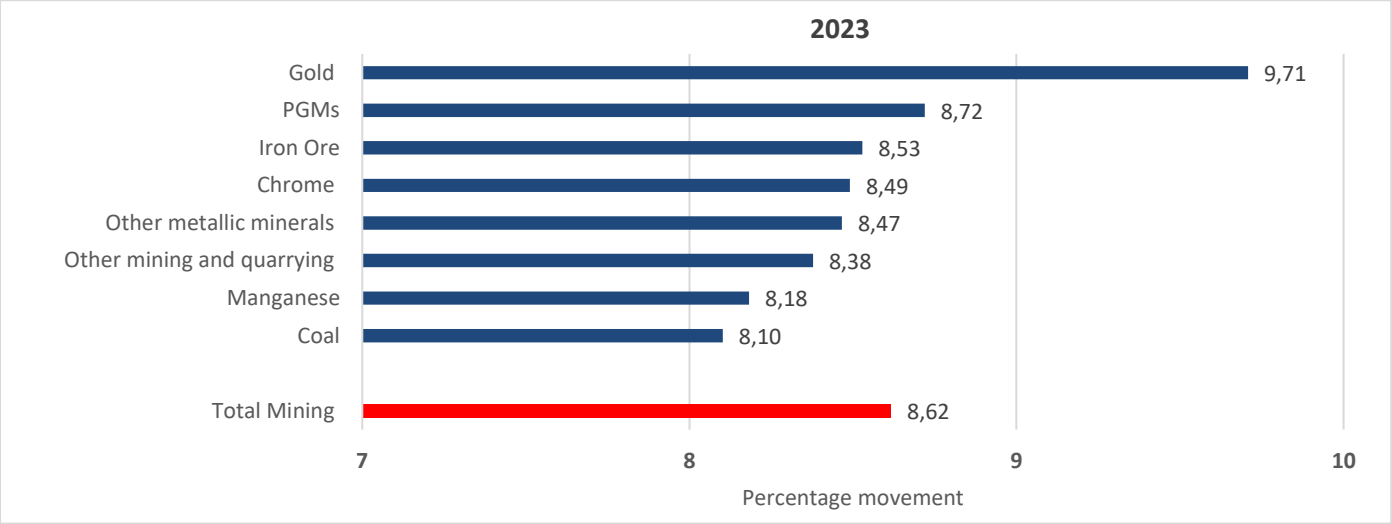
Source: Statistics SA & Minerals Council

The breakdown of the individual components that contributed to average total mining input cost inflation in 2023, as shown above, clearly illustrates sustained high levels of inflation for *electricity and water* (increased by an average of 15.4% in 2023 compared to 11.5% in 2022), *machinery and equipment* inputs (averaged 12.4% in 2023 compared to 12.8% in 2022), *finance, insurance, real estate and business services* (averaged 11.5% in 2023 compared to 8.8% in 2022), *imported intermediate inputs* (averaged 10.1% in 2023 compared to 2.7% in 2022) and *transport equipment* (averaged 9.7% in 2023 compared to 7.1% in 2022).

Based on the data available, it is evident that electricity and transport expenses drove mining and quarrying cost increases during 2023. These two factors accounted for 35% of the total increases in input costs in 2023, including the import of intermediate inputs.

Figure 3 below illustrates the average year-on-year inflationary input cost pressure per commodity subsector for 2023. The difference in input cost inflation levels is attributed to the weighting of individual components based on the economic structure of the commodities.

Figure 3: Commodity Input Cost Inflation



Source: Statistics SA & Minerals Council

In 2023, the gold sector experienced the highest average increase in input cost inflation. The gold sector is facing rising input costs, not just from electricity, but also due to the specific characteristics of the industry. This necessitates mechanisation, deep-level and specialised mining equipment, and labour. After gold, the PGM and iron ore sectors saw the fastest input cost rises. Coal was the sector that experienced the lowest average annual increase in its input costs at 8.1%, somewhat below the average for total mining. Overall, electricity supply shortages and tariff hikes, along with logistical constraints, drove input cost changes in 2023.

Conclusion:

Average mining input inflation for 2023 amounted to 8.6%. This was well above the PPI for final manufactured goods over the same period of 6.9% but continues to signal a return to the long-run average (2013-19) input cost inflation of 8%. The biggest average component increases in total mining input inflation for 2023 came from *electricity and water*, followed by *machinery and equipment* inputs.

In 2023, the gold sector experienced the highest increase in input cost inflation followed by the PGM and iron ore industries, whereas the coal industry experienced the lowest inflationary input cost pressure on average.

Yours sincerely,

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