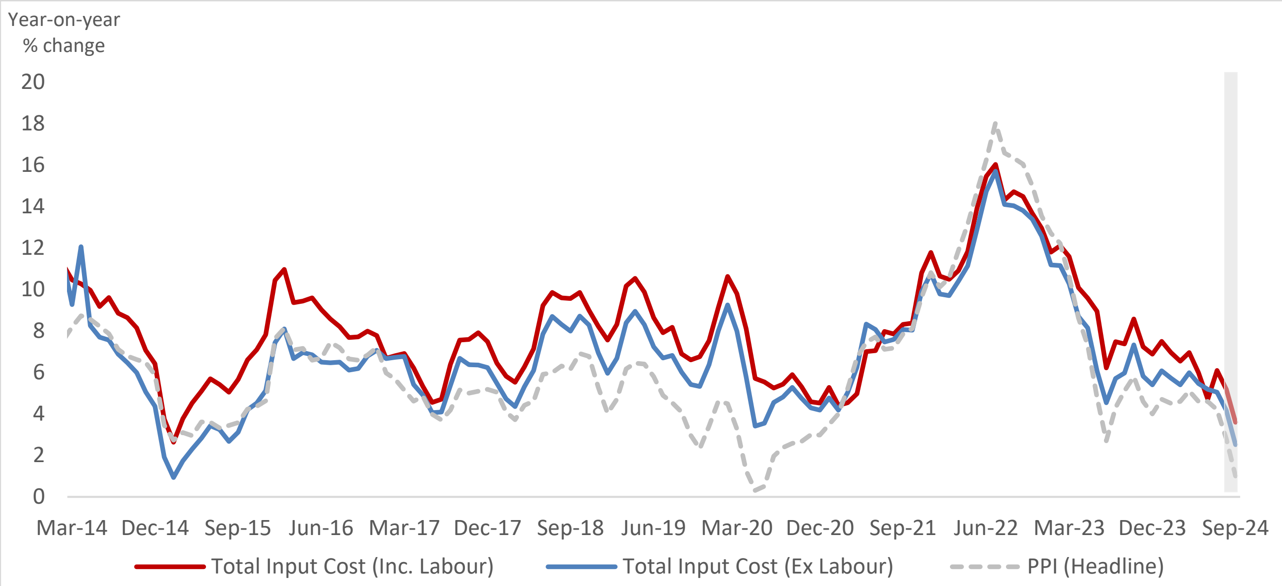
05 November 2024

Mining Input Costs eased further in September 2024

In September 2024, the Minerals Council South Africa's index for mining input costs showed continued easing, with a year-on-year (y-o-y) increase of 3.6%, down from 5.2% in August. This downward trend is illustrated in Figure 1, which also highlights a significant moderation in Stats SA's Producer Price Index (PPI) for September, registering at 1.0% y-o-y, compared to 2.8% in the prior month. Despite these reductions in the rate of increase, mining input costs remain more than three times higher than the headline PPI, underscoring persistent cost pressures within the mining sector.

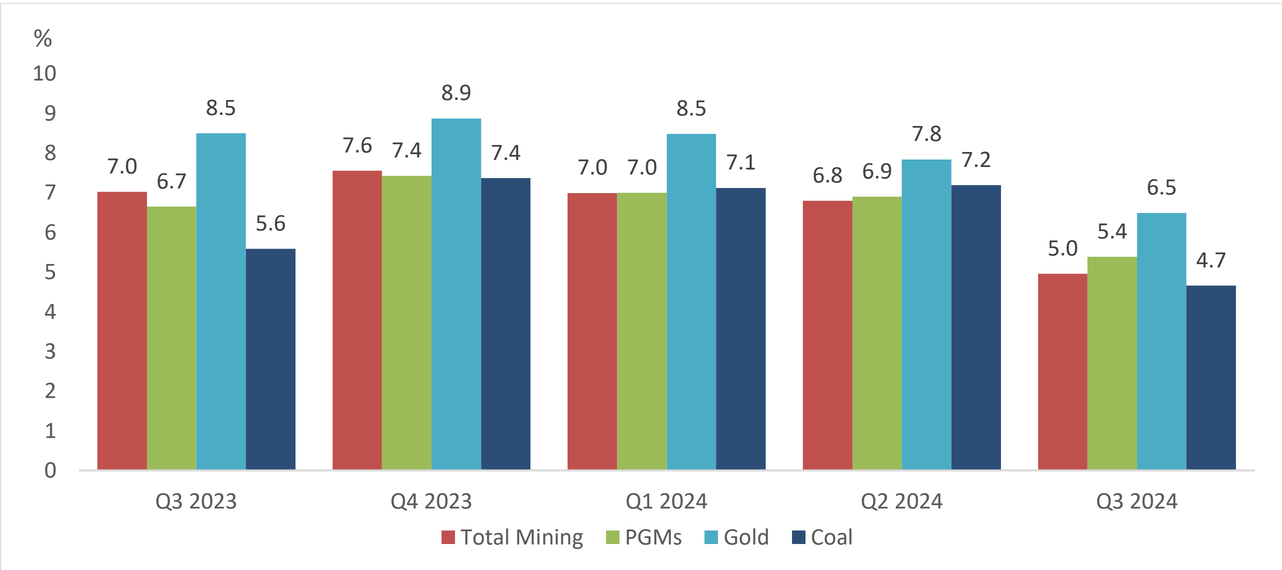
Figure 1: Total Mining Input Cost Inflation



Source: Statistics SA & Minerals Council

In the third quarter (Q3) of 2024, mining input inflation settled at 5%, a reduction from the 7% recorded during the same period last year. Among key commodities, gold continued to experience the highest rise in input costs, reaching 6.5% in Q3, down from 8.5% in 2023. Figure 2 below illustrates these quarterly trends, providing a comparative view of cost pressures across the past year.

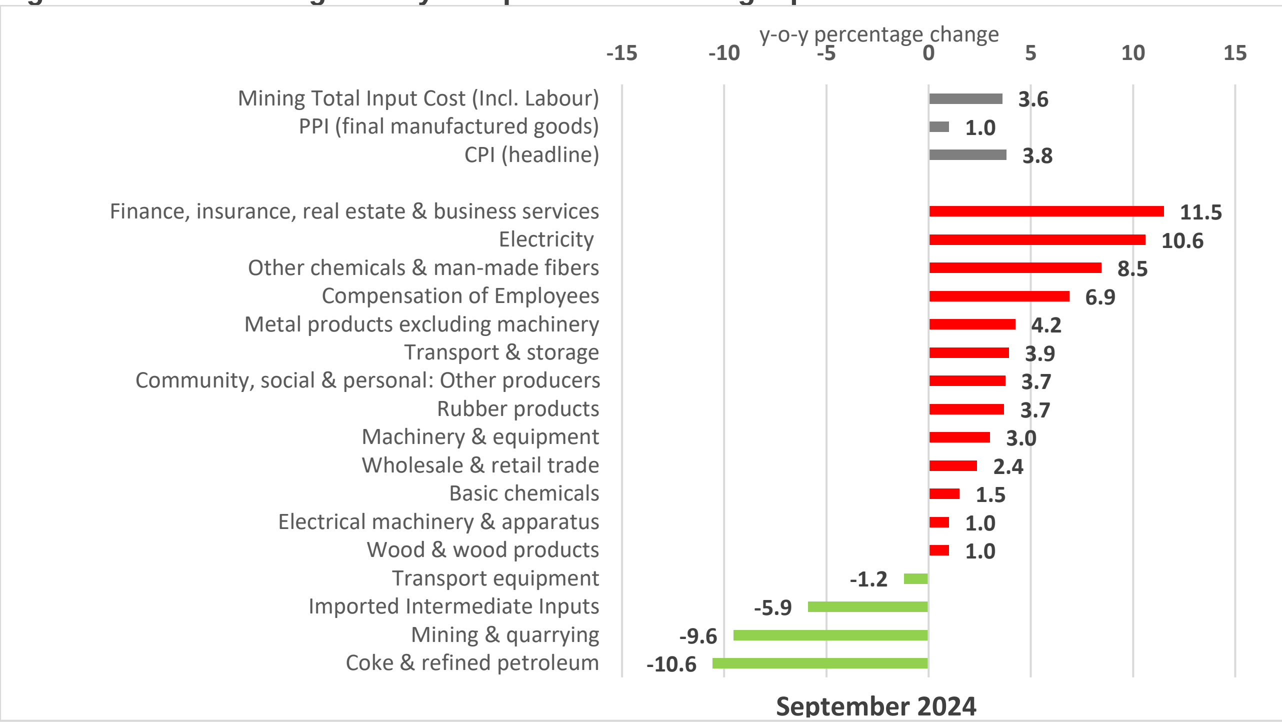
Figure 2: Quarterly change in Input Costs for key mining subsectors



Source: Statistics SA & Minerals Council

Figure 3 below provides a breakdown of the factors contributing to total mining input cost inflation. For comparison, the figures are presented alongside consumer inflation (3.8% y-o-y) and producer price inflation for September 2024.

Figure 3: Annual change in key components of Mining Input Cost



Source: Statistics SA & Minerals Council

Aside from *financing costs*, which eased in September following the South African Reserve Bank's (SARB) reduction of the prime lending rate to 11.5%, electricity costs continue to drive input cost inflation, increasing by 10.6% year-over-year (y-o-y). *Other chemicals and synthetic fibers* also registered a significant rise, with an 8.5% y-o-y increase in September, reflecting higher expenses for mining chemicals, prepared explosives, and chemical catalysts. *Employee compensation* similarly contributed to input costs, as wage growth averaged 6.9% y-o-y, following the annual wage increases implemented in July. While general inflation is on a downward trend, these elevated wage increases could add to inflationary pressures if they outpace gains in labour productivity, leading to higher unit labour costs.

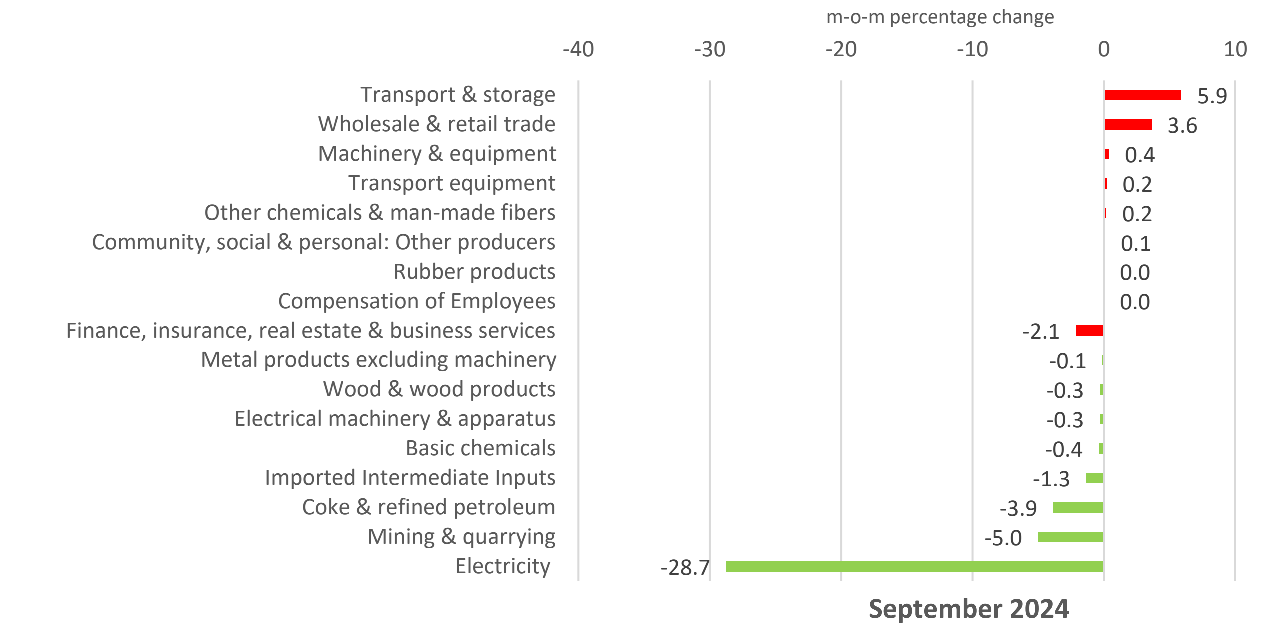
This dynamic is particularly evident in the public wage bill, as highlighted in last Wednesday's Medium Term Budget Policy Statement (MTBPS). Above-inflation wage increases continue to challenge the sustainability of both the private and public sectors. Public sector wage settlements often set a benchmark that influences wage expectations throughout the economy, as employees in various sectors may view these settlements as a standard to seek or exceed. While this effect may be less pronounced in industries like mining, where many firms have secured multi-year wage agreements, it still contributes to upward pressure on wages across multiple sectors.

On a positive note, the continued strengthening of the exchange rate, with the nominal effective exchange rate appreciating by 5.9% y-o-y, has helped reduce the costs of *imported intermediate inputs* within the sector. Additionally, there was a notable 10.6% y-o-y decline in intermediate *mining and quarrying inputs*, which further alleviated some of the overall input cost pressures. September also saw a substantial reduction in crude oil prices y-o-y, which fell by 21.2% to $73.1 per barrel from

$92.7 per barrel in September 2023. This decline has significantly contributed to reduced costs for *coke and refined petroleum products*, easing some inflationary pressures for the sector.

By comparing price changes from August 2024 to September 2024, we can identify which components have experienced short-term price increases and which have seen price decreases.

Figure 4: Monthly Mining Input Cost Changes

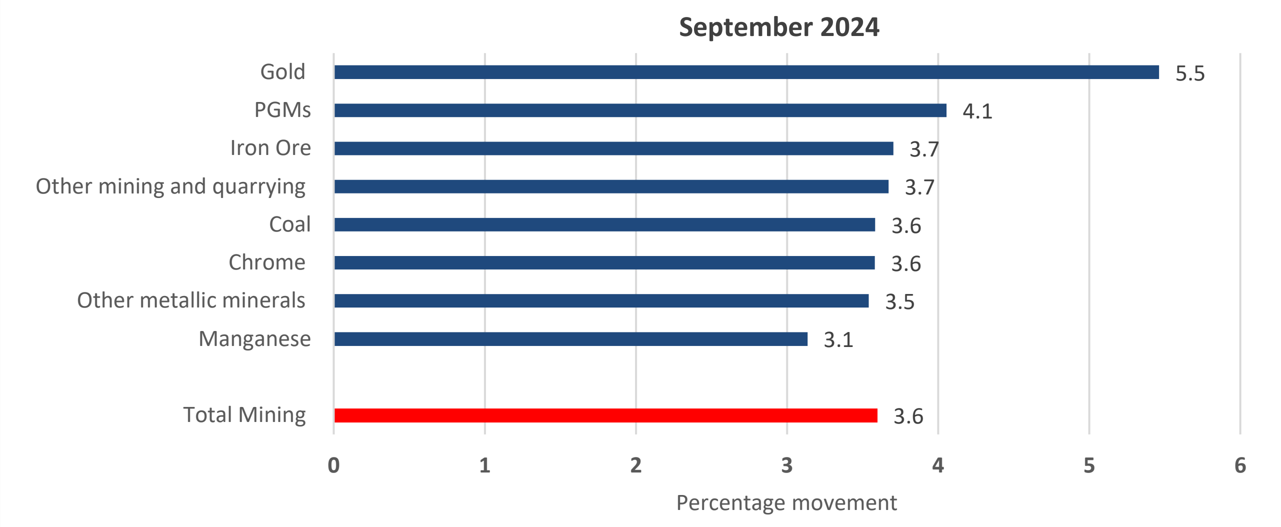


Source: Statistics SA & Minerals Council

September marked the end of winter electricity tariffs, leading to a 28.7% month-on-month (m-o-m) decrease in electricity costs, following earlier increases of 37% in June, 10.3% in July, and a slight reprieve of 1.8% in August. This return to baseline levels comes after the 12.74% NERSA-approved electricity price increase implemented in April this year. Additionally, a stronger rand and steady Brent crude oil prices, which remained below $80 per barrel over the past three months, have contributed to a 3.9% m-o-m decrease in the price of *coke and refined petroleum*, alongside a 1.3% decline in the cost of *imported intermediate goods*. *Mining and quarrying* input costs declined by 5% m-o-m, largely due to lower coal and iron ore prices in September.

Figure 5 below illustrates the y-o-y increase in mining input costs per commodity subsector. The difference in input cost inflation levels is attributed to the weighting of individual components based on the economic structure of the commodities.

Figure 5: Commodity-specific Input Cost Inflation



Source: Statistics SA & Minerals Council

In September, as has been the case so far this year, the gold sector had the highest average increase in input cost inflation. Following the gold sector, the PGM, iron ore, and other mining and quarrying sectors experienced the next fastest rise in input costs.

Conclusion:

September 2024 saw a continued easing in mining input costs, reflecting moderating inflationary pressures across the sector. While year-on-year trends show reduced cost growth for key commodities and inputs, the mining industry continues to face persistent cost challenges, particularly in areas like electricity and wage-driven expenses. A stronger currency and favourable oil prices provided some relief for imported and energy-related inputs, but these benefits are offset by high wage costs and core input inflation that remains notably above general inflation levels.

Looking ahead, the five-month trend of easing fuel costs will end in November, likely adding pressure to near-term input costs coming from refined petroleum products. Geopolitical tensions in the Middle East, alongside today's U.S. election, will likely keep markets - and oil prices - in a state of uncertainty for the remainder of the year.

Yours sincerely,

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