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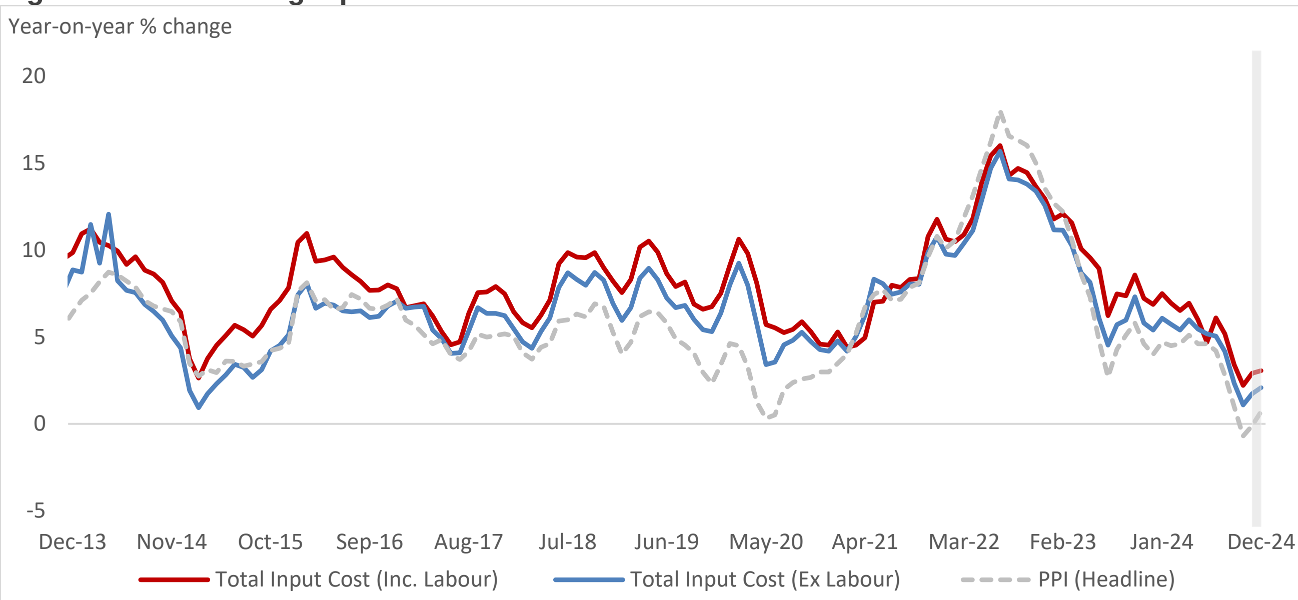
Mining Input Costs Averaged 5.1% in 2024

In December 2024, the Minerals Council South Africa's mining input cost index edged up slightly, with the annual increase accelerating to 3.1% year-on-year (y-o-y) from 2.9% in November. This movement aligned with Stats SA's Producer Price Index (PPI) for December, which registered a 0.7% y-o-y increase after two months of deflationary pressure.

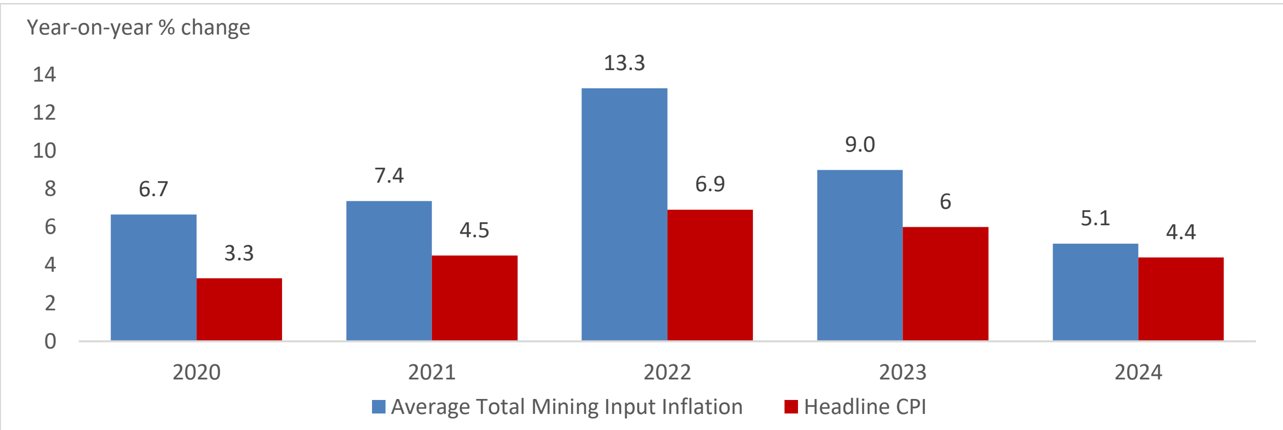
Figure 1: Total Mining Input Cost Inflation



Source: Statistics SA & Minerals Council SA

In 2024, mining input costs averaged 5.1%, a sharp decline from 9.0% in 2023 and 13.3% in 2022, which had been driven by supply chain disruptions, rising energy prices (oil and coal), and broader cost pressures following the COVID-19 pandemic. The trend in mining input costs closely tracked headline CPI, which averaged 4.4% in 2024 but remains above average consumer prices.

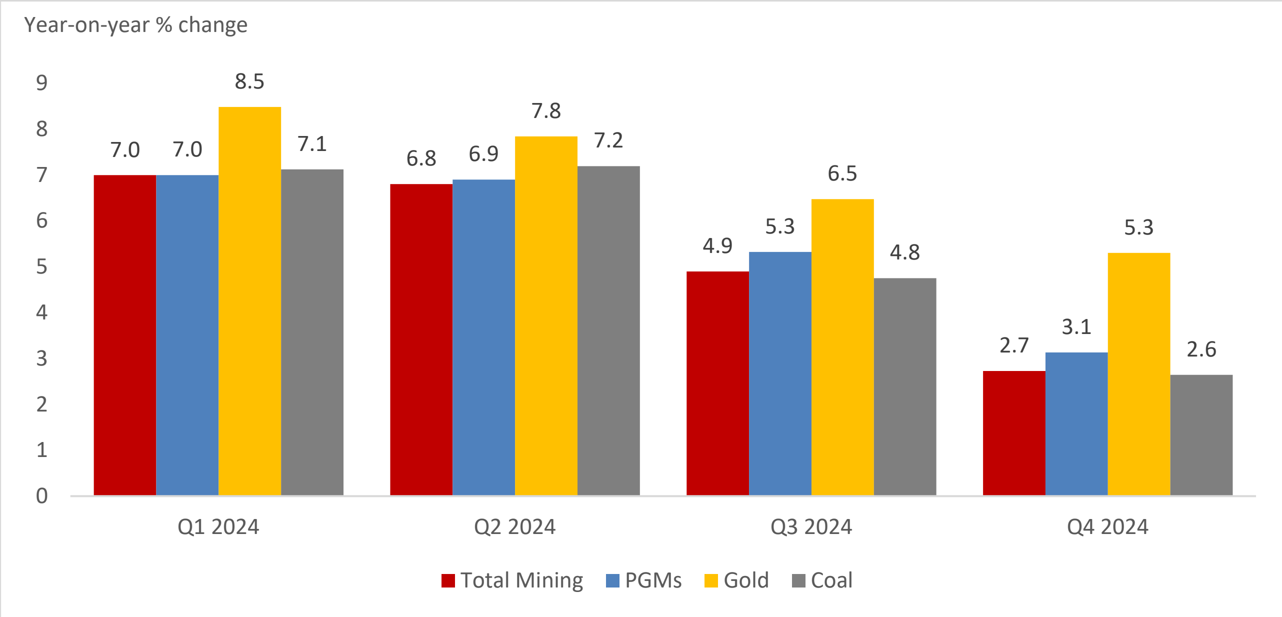
Figure 2: Mining input costs eased but remained above general inflation



Source: Statistics SA & Minerals Council SA

Total mining input costs moderated significantly in Q4 2024, slowing to 2.7% from a peak of 7.0% in Q1. PGM input cost inflation followed a similar trend, easing to 3.1% in Q4 from 7.0% in Q1. Gold recorded the highest cost inflation among commodities at 5.3% in Q4, though well below the 8.5% seen in Q1. Meanwhile, coal input costs declined to 2.6% in Q4, down from 7.1% in the first quarter.

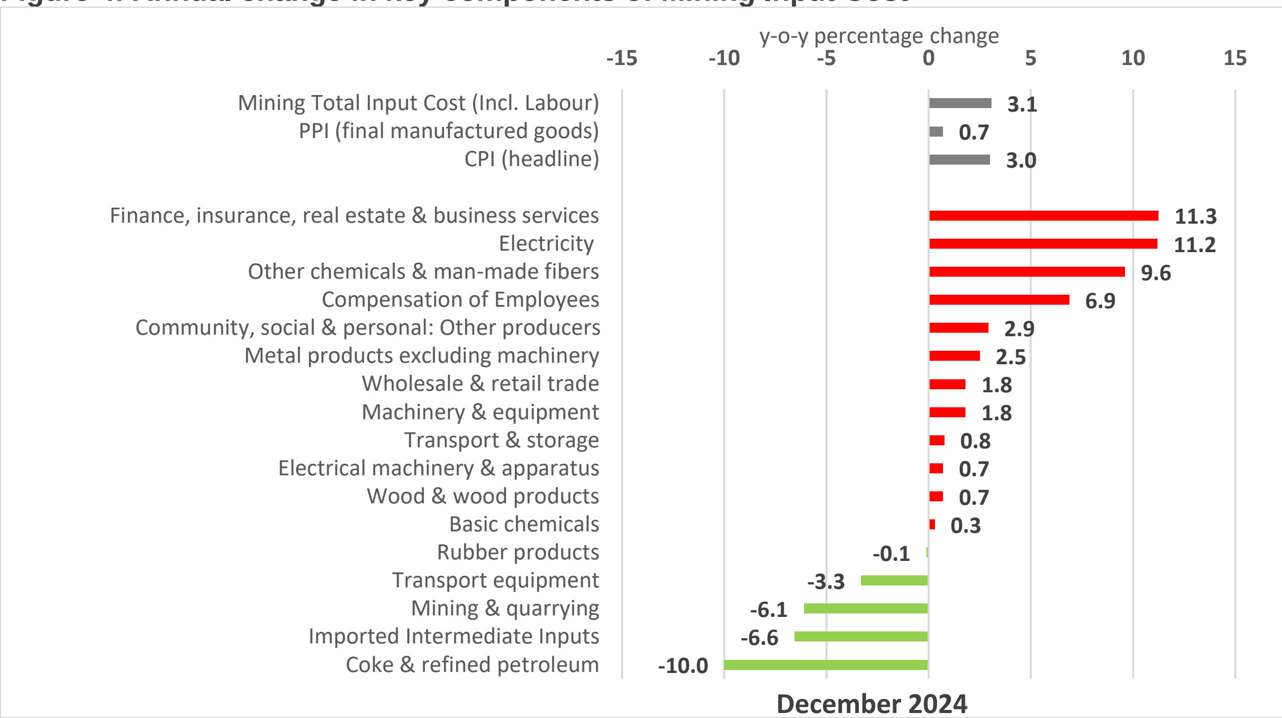
Figure 3: Changes in Quarterly Mining Input Cost



Source: Statistics SA & Minerals Council SA

Figure 4 below provides a breakdown of the factors contributing to total mining input cost inflation in December.

Figure 4: Annual change in key components of Mining Input Cost



Source: Statistics SA & Minerals Council SA

Excluding financing costs, which remained unchanged in December with the prime lending rate at 11.25%, electricity prices remained a key driver of mining input cost inflation, rising 11.2% year-on-year (y-o-y). The cost of other chemicals and synthetic fibers also climbed, increasing by 9.6% y-o-y in December, driven by higher prices for mining chemicals, prepared explosives, and chemical catalysts.

Both financing costs and electricity prices continue to see double-digit increases. Financing costs peaked in April 2023 when the prime lending rate hit 11.75% - a level last seen during the 2008 financial crisis. However, with global economic conditions improving and inflation easing, interest rates are now on a downward trajectory. The South African Reserve Bank (SARB) is expected to implement at least one more rate cut in the coming months.

That said, risks remain. A potential tariff war initiated by the Trump administration could put renewed pressure on global inflation, slowing the pace of rate cuts or, in a worst-case scenario, forcing central banks to halt the easing cycle - or even raise rates again.

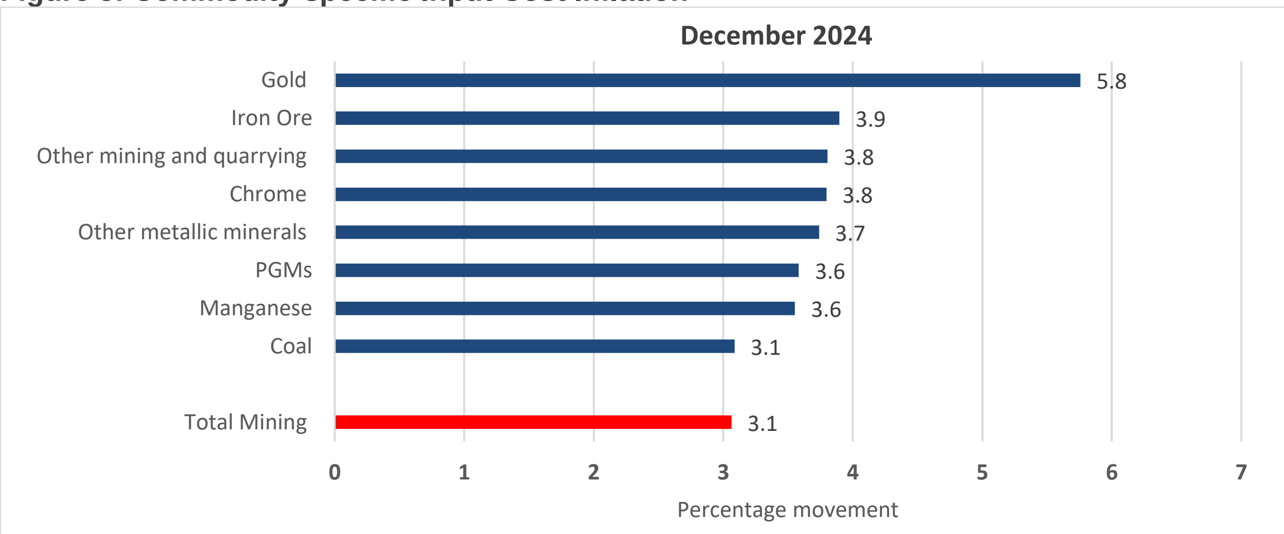
Meanwhile, electricity costs are expected to continue driving mining input inflation in the near term. NERSA last week approved a 12.74% tariff hike for 2025/26, extending the trend of steep increases. However, more moderate single-digit tariff hikes of 5.36% and 6.19% have been approved for Eskom's financial years 2026/27 and 2027/28, which could help ease cost pressures on the mining sector over the medium term.

On a positive note, the mining sector benefited from a relatively stronger nominal exchange rate compared to the previous year, with the nominal effective exchange rate appreciating 6.6% y-o-y. This improvement helped lower the cost of imported intermediate inputs. However, the rand's gains in late 2024 have largely dissipated, and its current weakness - if sustained - could exert short-term pressure on imported input costs in the mining sector.

December also saw a notable decline in crude oil prices, which fell 5.6% y-o-y to $73.2 per barrel, down from $77.5 per barrel in December 2023. This drop significantly reduced costs for coke and refined petroleum products, providing much-needed relief from inflationary pressures in the mining sector.

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 SA

In December, as has been the case for the entire 2024, the gold sector had the highest average increase in input cost inflation. Following the gold sector, iron ore, other mining and quarrying and chrome sectors experienced the next fastest rise in input costs.

Conclusion:

In 2024, mining input costs moderated significantly to 5.1%, a welcome improvement from the 13.3% recorded in 2022 and 9.0% in 2023. However, gold experienced the highest input cost inflation among the commodities we track, averaging 6.9% for the year.

Looking ahead to 2025, the mining sector faces growing uncertainty, with several global factors posing risks to input costs and overall inflation. A potential trade war initiated by the Trump administration - particularly involving China - could have widespread repercussions. This includes increased currency volatility in developing nations, including the rand, as well as fluctuations in oil prices, which could raise energy and transport costs for mining operations. Additionally, South Africa now finds itself under heightened scrutiny from the U.S., adding further risk to trade and investment flows particularly under the African Growth and Opportunity Act (AGOA) which needs to be renewed by September 2025.
The impact on mining could be significant. A weaker rand, if sustained, will raise the cost of imported inputs such as fuel, equipment, and chemicals, eroding cost savings seen in 2024. Higher oil prices would further drive-up logistics and energy costs, while global trade disruptions could impact demand for key South African commodities, particularly those reliant on China as a major export destination.

The uncertain global environment is already influencing monetary policy. The U.S. Federal Reserve has opted to hold interest rates steady, citing risks linked to tariffs and trade disputes. Meanwhile, the South African Reserve Bank recently modelled a trade war scenario during its January Monetary Policy Committee (MPC) meeting, projecting that in a worst-case scenario, South African inflation could rise to an average of 5.0% (up from 4.4% in 2024), correspondingly leading to a repo rate that is 50 basis-points higher relative to the SARB's baseline forecast. This would raise financing costs for mining companies, further straining profitability. Overall, 2025 is shaping up to be a year of heightened uncertainty, with significant implications for a small, open economy like South Africa. The extent of the impact will depend on how global trade tensions evolve, how policymakers navigate these challenges and how speedily South Africa proceeds with structural reforms.

Yours sincerely,

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