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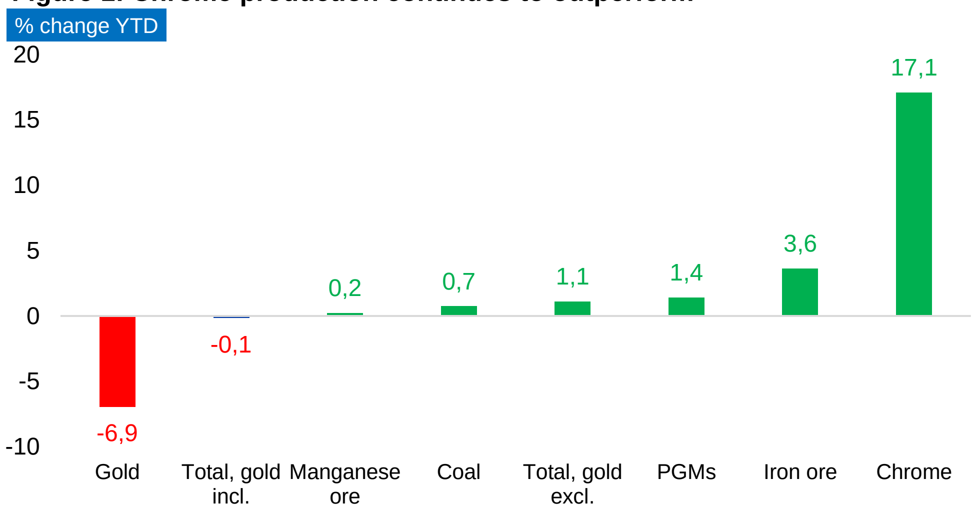
Mining production continued to decline in July 2024

Following two consecutive month-on-month (m-o-m) contractions in May and June, in July 2024, seasonally adjusted total mining production declined by a further 0.9% m-o-m. In May and June, production declined by 0.9% and 1.7%, respectively. Three subindustries were responsible for the drop in overall output during July, namely PGMs, coal and iron ore. Together, these commodities account for 65% of total mining production. Only four of the 12 main commodity sectors recorded m-o-m production increases, and these are gold (5.5%), chrome (4.7%), manganese (7.2%), and diamonds (17.5%).

On a year-on-year (y-o-y) seasonally adjusted basis (i.e. comparing July 2024 to July 2023) total mining production declined by 2.3%. This follows a drop of 2.6% in June 2024 (y-o-y). The y-o-y decline in production for July was largely attributed to decreases in the gold, PGMs, and iron ore industries. Notably, gold production played a significant role in this decline and warrants special attention. Notwithstanding a record high nominal gold price, South African gold miners continue to face structural headwinds including the fact that four of the top five deepest gold mines in the world are found in South Africa. The shallowest of these mines extends to a depth of 2.2 kilometres, while the deepest, Mponeng (operated by Harmony Gold), reaches over 4 kilometres below the surface. The cost of production, including labour costs, in these mines is very high compared to the world average. Further to this is the fact that the country has been struggling with inadequate electricity supply and above inflation annual power tariff increases since 2008.

Figure 1: Chrome production continues to outperform



Source: Stats SA, Minerals Council

T +27 11 498 7100 E info@mineralscouncil.org.za W www.mineralscouncil.org.za
7th Floor, Rosebank Towers, 19 Biermann Avenue, Rosebank, 2196

Figure 1 presents the performance of the mining sector and the key industries year-to-date (YTD) (i.e. the first seven months of 2024 compared to the same period last year). Gold production declined by 6.9% and had the effect of pulling down the total sector's production performance, which dropped marginally by 0.1%. When gold production is excluded, the total sector production increased by 1.1% YTD.

Bottom line: Compared to 2023, the sector's performance for 2024 is likely to remain flat or register only marginal growth. At industry level, 2024 total sector production performance will be affected by the following factors:

- While the gold price continues to be high, production is on a structural decline because of the deep depths at which mining occurs
- PGMs. While production increased by 1.4% in the first seven months, it is unlikely that 2024 production will be higher than that of 2023 because of subdued prices that has necessitated restructuring at some major mines.
- Coal. Rail and port challenges continue to hold back the industry. Production might be modestly supported by the fact that Eskom's coal fleet is being restored to previous efficiencies.
- Diamonds: Lab-grown diamonds continue to pose a long-term threat to the industry. Additionally, the G7 sanctions on Russian diamonds may adversely impact the local diamond sector. This situation is compounded by pressure from Israel on the G7, particularly the United States, to punish South Africa for its legal actions against Israel in the International Court of Justice (ICJ). Israel, as a significant player in the global diamond trade, exerts considerable influence in this context.
- Iron ore. Indications are that production might increase slightly or remain flat because of equipment challenges at Saldanha Bay Port early in the year.
- Chrome. All else equal, this is one industry whose production is expected to increase (notably) compared to 2023.

Structural issues, both sector-specific and cross-cutting, continue to be significant challenges in the industry. Currently, the only positive development directly benefiting the overall sector is the stable supply of electricity, with no load shedding occurring for over five months. Despite being globally ranked among the top ten countries for mineral endowment and diversity, regulatory and policy bottlenecks continue to undermine the sector's performance.

BONGANI MOTSA
SENIOR ECONOMIST
Cell: 082 6853277
Email: bmotsa@mineralscouncil.org.za