10 December 2024

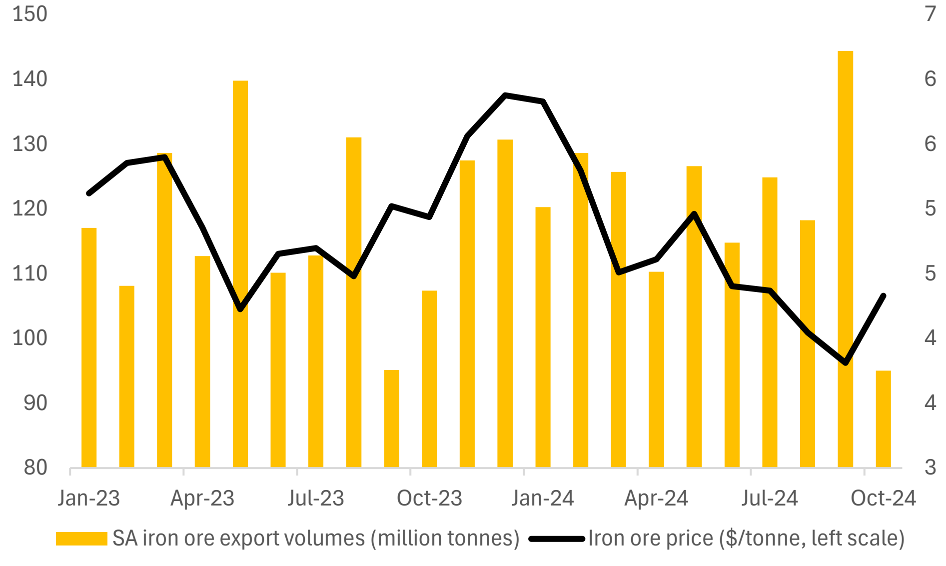
Mining output in reverse during October, but set for modest growth in 2024

Following large monthly increases in August and September 2024, which ensured that the mining sector contributed positively to real GDP in the third quarter, seasonally adjusted real mining production declined by a notable 3% month-on-month (m-o-m) in October. Compared with October 2023, the news was better, with mining output increasing by 1.4% year-on-year (y-o-y). In the first ten months of 2024, production was up by 0.9% relative to the corresponding period in 2023. With two months of data for calendar 2024 outstanding, full year South African mining output remains on track for a modest increase of around 1%.

Delving into the detail of the monthly decline in October, **iron ore** (-14.3%), **manganese** (-14.9%) and **nickel** (-22%) saw the biggest falls in output. The large contraction for iron ore production coincided with a stark decline in iron ore export volumes during the month (see Figure 1). The latter can be explained by Transnet's annual maintenance shutdown of the iron ore railway line between Sishen and the port of Saldanha. To frontload the shutdown, iron ore output and exports surged in September. Therefore, the production decline in October reflects a normalisation rather than a concerning development. That said, the iron ore industry continues to be adversely impacted by Transnet rail and port inefficiencies. On top of this, iron ore prices have been volatile and generally trended lower so far in 2024 amid concern about the health of the Chinese economy and, at times, disappointment about a lack of meaningful stimulus announcements from Chinese policymakers to boost the economy.

On that note, iron ore prices received some support this week after Chinese authorities signalled more aggressive stimulus measures in 2025.

Figure 1: Annual rail maintenance shutdown weighed on iron ore exports in October



Sources: DataStream, SA Revenue Service customs data

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The decline in **manganese production** is most likely also linked to commodity price developments. Earlier in 2024, manganese prices were boosted by output disruptions in Australia following severe weather. In response, manganese producers in South Africa increased output, with the additional manganese being transported by road for export. However, as the production facilities in Australia were repaired and amid signs of softer demand from China, the major consumer of South African manganese, prices dropped in recent months. This may help to explain lower manganese production in October.

In the positive column, **diamond production** has been ramping up in the last two months, and also increased significantly (by almost 28% y-o-y) compared with October 2023. This probably reflects underground mining activity at South Africa's largest diamond mine (Venetia) increasing following the successful conversion from open cast to underground operations.

In terms of the other major subcategories of mining, recent divergences were sustained in October. To put some numbers to this, **gold** production was again lower (-3.4% y-o-y), while **chrome** remained one of the best performers, with output up by 14% y-o-y.

Bottom line: There were some specific factors in the iron ore and manganese sectors that weighed on overall mining production at the start of the fourth quarter. Despite the slow start to the quarter, the strong monthly production gains in August and September suggest that even if production remains at the October level in the rest of the fourth quarter, quarterly mining output (relative to the third quarter of 2024) will be higher. Although far from robust growth, real mining production in 2024 remains on track for the best performance since 2021. Assuming a continued absence of power cuts and sustained (slow) progress on Transnet rail performance, the mining industry could build on the modest recent growth in 2025. Key risks to this outlook include global macro instability, in particular the prospect of trade tensions as Donald Trump starts a new term as US president early in the new year.

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