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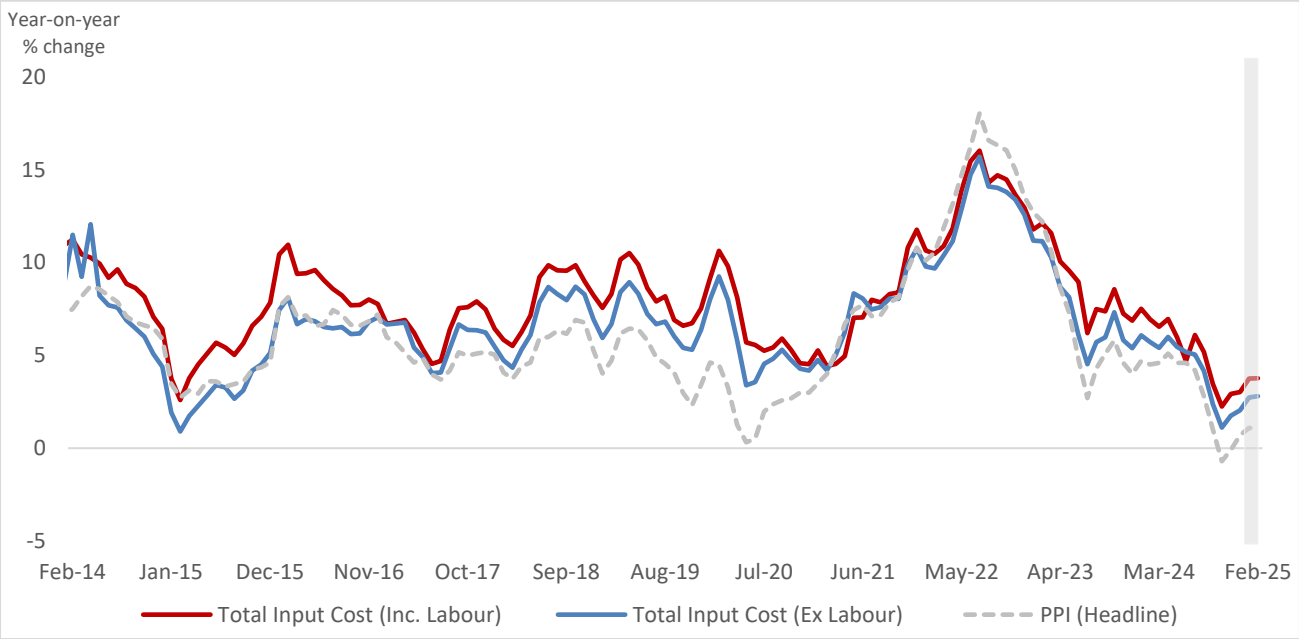
MINERALS COUNCIL
SOUTH AFRICA

Mining input costs remained unchanged at 3.8% year-on-year in February

In February 2025, the Minerals Council South Africa's Mining Input Cost Index rose 3.8% year-on-year (y-o-y), unchanged from the y-o-y growth recorded in January. A moderate improvement in the Nominal Effective Exchange Rate (NEER) helped lower costs for imported intermediate goods, and reduced financing costs eased capital financing expenses. These gains were largely offset by higher prices for chemicals and man-made fibres, as well as an increase in mining and quarrying intermediate input costs on an annual basis in February. The chart below illustrates the trend in total mining input costs, using headline manufacturing PPI as a benchmark.

Figure 1: Total Mining Input Cost Inflation



Source: Statistics SA & Minerals Council SA

The largest cost movements over the 12 months to February were driven by financing costs, electricity, chemicals and other man-made fibres, and intermediate imports. Figure 2 below highlights these annual shifts affecting the industry.

Financing costs saw some relief. The South African Reserve Bank (SARB) reduced the repo rate by 0.75 percentage points over the past year, which lowered the prime lending rate to 11% and helped ease capital financing expenses for mining operations.

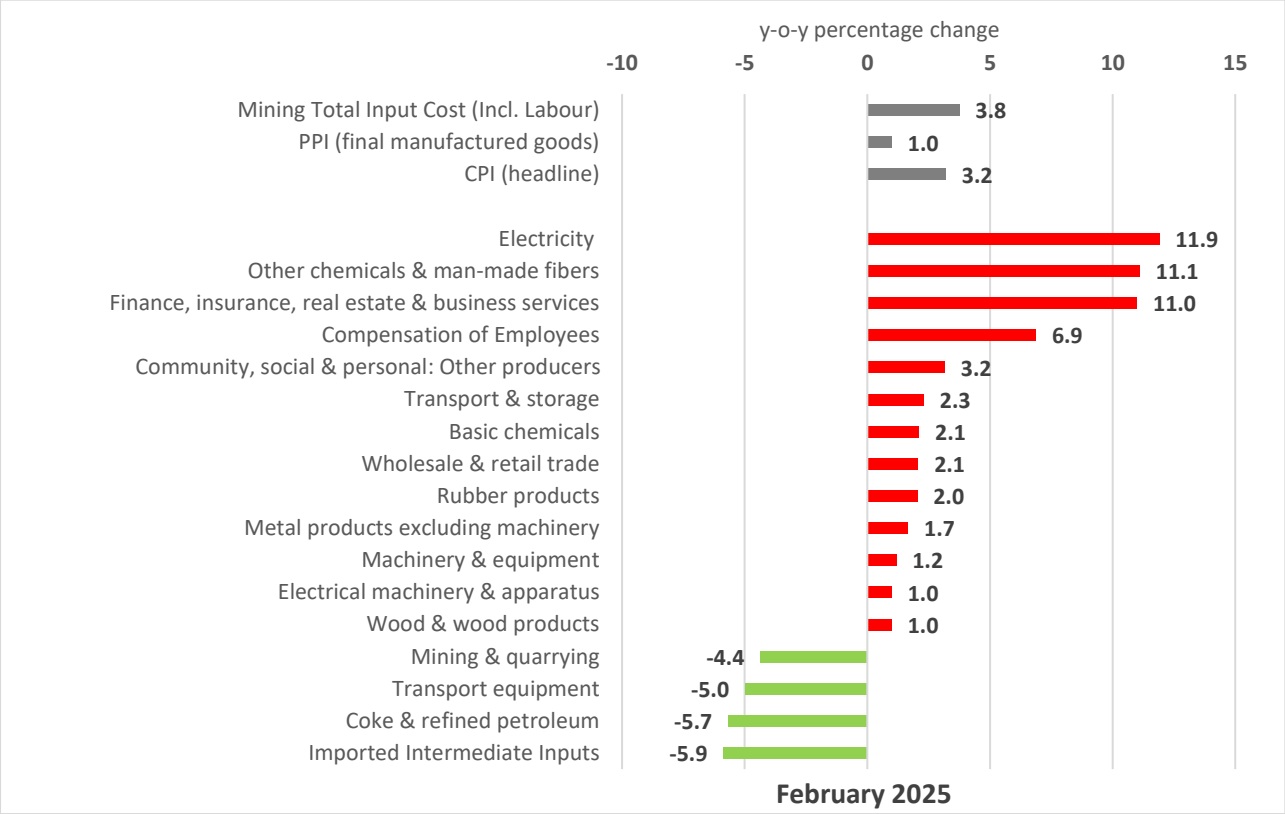
Electricity costs remain the biggest concern. As we have noted before, the above-inflation increases in electricity tariffs continue to be the primary driver of annual input cost growth. Over the past two decades, the average electricity price for mining has surged from 15.07 cents per kWh in 2003 to 143.51 cents per kWh in 2023 - an 852% increase. This trend will persist, with the National Energy Regulator of South Africa (Nersa) approving a 12.74% electricity tariff hike for direct Eskom customers (effective April 1, 2025) and an 11.32% increase for municipal bulk purchases (effective July 1, 2025) for the 2026 financial year.

Chemical prices and other intermediate costs also saw notable increases. Ammonia prices - a key ingredient in explosives used for blasting and mineral extraction - rose 20–25% over the past year. Additionally, prices for polypropylene and propylene, which are used in protective mining equipment, filtration systems, piping, and certain chemical processes, also increased, adding further cost pressures to the sector.

Rubber prices have increased by a comparable margin, directly impacting tyre costs, which are a major expense in mining operations due to the extensive use of heavy-duty haul trucks and other machinery.

On the positive side, prices for **coke and refined petroleum** products declined 5.7% y-o-y, largely due to easing crude oil prices and an improvement in the rand's performance. The NEER appreciated by 5.9%, reducing the cost of **imported inputs**.

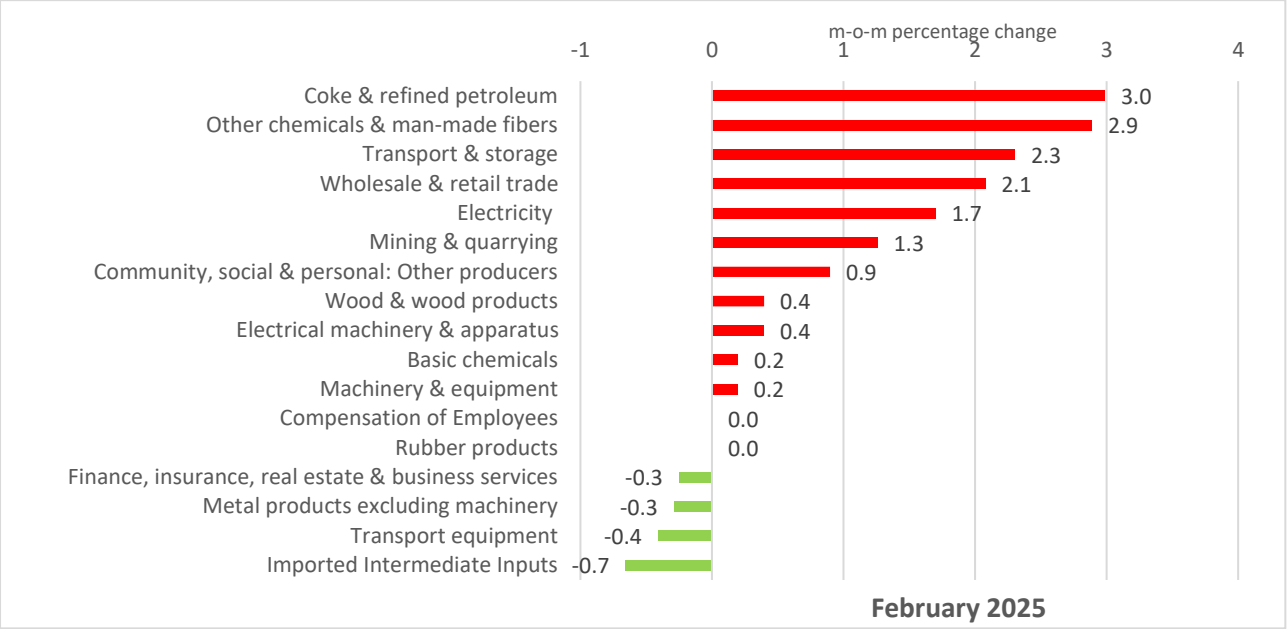
Figure 2: Annual change in key components of Mining Input Cost



Source: Statistics SA & Minerals Council SA

In the near term, Figure 3 illustrates some of the month-on-month dynamics observed in the first two months of 2025. Encouragingly, the rand strengthened against major trading partners, appreciating 0.7% from January to February, trading at R18.47 to the US dollar (from R18.72 in January). There were also gains against the euro and Japanese yen. Similarly, at the end of January, the SARB lowered the repo rate by 25 basis points (0.25 percentage points), helping to ease financing costs in February. On the downside, crude oil prices rose in January to $78.20 per barrel, up from $73.20 in December 2023. Due to the typical one-month lag in crude oil price adjustments filtering through to petroleum products like petrol and diesel, February saw higher coke and refined petroleum costs.

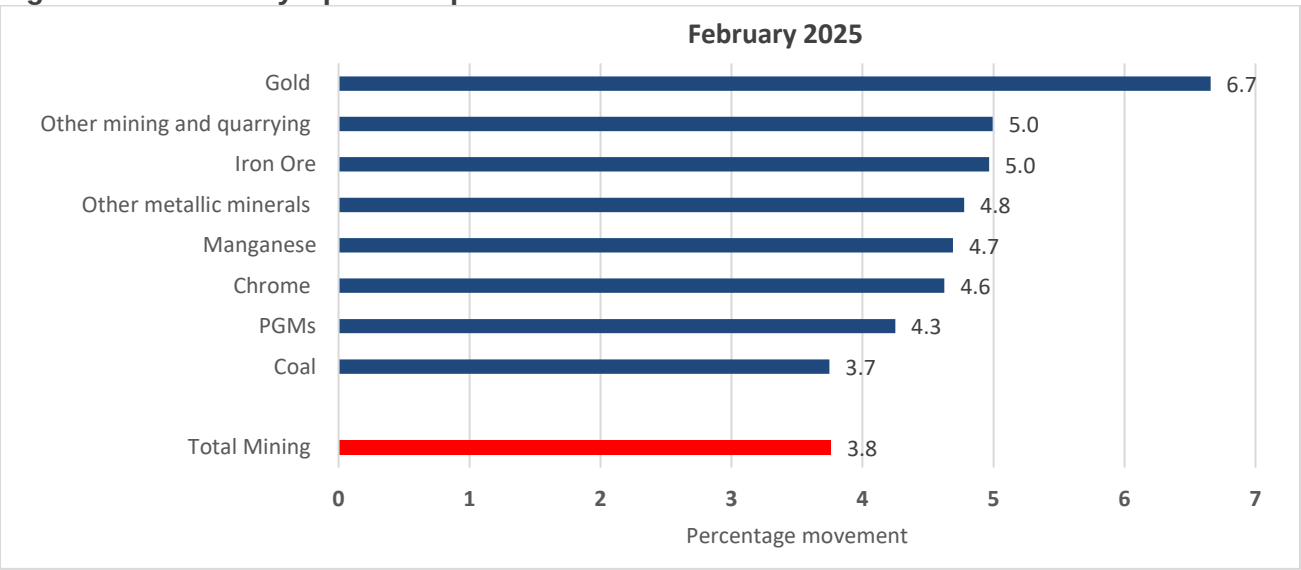
Figure 3: Monthly Mining Input Cost Changes



Source: Statistics SA & Minerals Council SA

Figure 4 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 4: Commodity-Specific Input Cost Inflation



Source: Statistics SA & Minerals Council SA

In February 2025, the *gold* sector recorded the highest average increase in input cost inflation. The other mining and quarrying sector, iron ore, other metallic minerals, and manganese sectors saw the next fastest rise in input costs.

Conclusion:

The macroeconomic environment remains highly uncertain, with several factors influencing mining input costs in South Africa. One key risk is US trade policy uncertainty, particularly regarding tariffs imposed during the Trump administration. These tariffs could contribute to higher inflation and weaker growth in the US (and globally), which may delay interest rate cuts by the Federal Reserve. A slower rate-cutting cycle in the US limits the SARB's ability to lower the repo rate, keeping borrowing costs elevated. That said, many analysts still anticipate two 25-basis-point cuts by the Federal Reserve in 2025, as policymakers cautiously assess the impact of tariffs. If these cuts materialise, the SARB may follow suit, easing capital costs for businesses, including the mining sector.

On the electricity front, the 12.74% tariff increase for Eskom customers took effect yesterday (1 April) for the 2026 financial year. However, tariff increases for the 2027 and 2028 financial years have been set at 5.36% and 6.19%, respectively - a shift from the double-digit hikes seen in previous years. This suggests a gradual easing in electricity cost pressures for the mining sector over the medium term, although costs remain elevated.

Another key factor is crude oil price volatility, driven in part by geopolitical tensions, including US-Iran relations, the potential for increased Russian crude oil exports, tied to discussions around lifting sanctions as part of a possible peace deal with Ukraine. Fluctuating crude oil prices directly impact diesel and petrol costs, which are major expenses for mining operations.

Beyond direct input costs, US tariffs on South African-produced vehicles could have indirect consequences for mining. According to the World Platinum Investment Council, the 25% tariff on South African automotive exports could reduce platinum demand by 70,000 ounces and palladium demand by 269,000 ounces. A decline in demand for these metals could affect investment decisions, and ultimately production costs.

Overall, while we remain cautiously optimistic that cost pressures will not escalate drastically, macroeconomic and geopolitical uncertainties will likely continue to drive volatility in mining input costs.

André Lourens
Economist
Cell: +27 (0)73-614-6161
Tel: +27 11 498 7100
Email: **alourens@mineralscouncil.org.za**

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