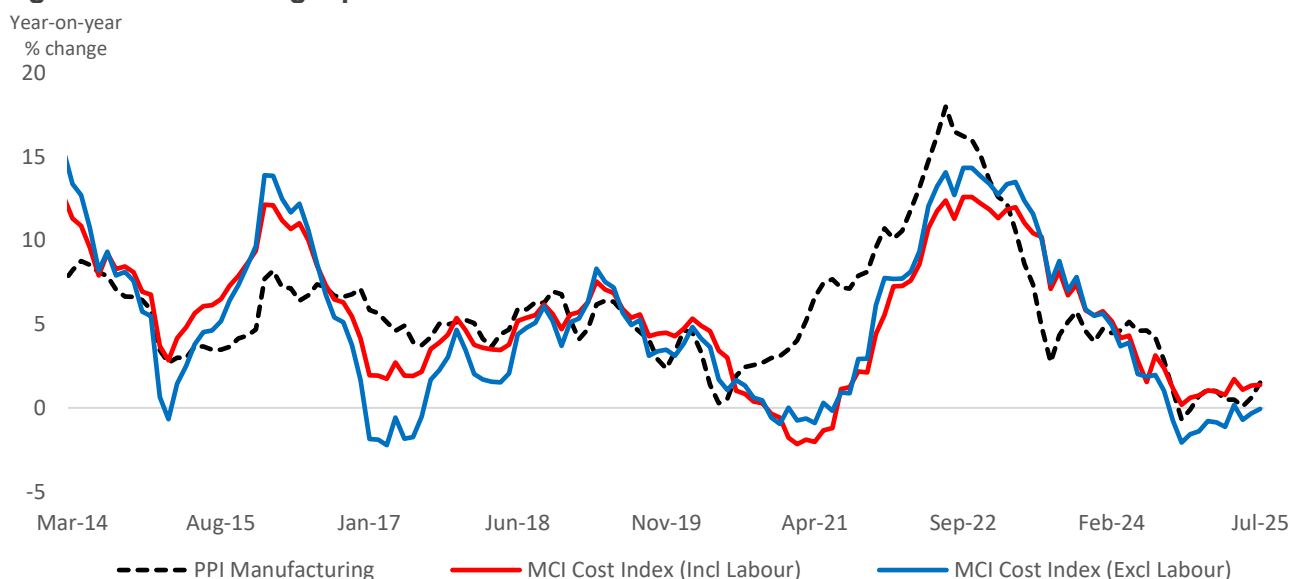


## Mining input costs edged up in July, driven by labour costs and administered prices

July marked the first full month under winter electricity tariffs and saw notable increases in annual labour and water supply costs. According to the latest data, the Minerals Council's Mining Composite Input (MCI) Cost Index rose by 1.4% year-on-year (y-o-y) in July, slightly up from a downwardly revised 1.3% in June. Meanwhile, the Producer Price Index (PPI) for Final Manufactured Goods increased by 1.5% y-o-y. When excluding labour costs, the MCI Cost Index recorded a 0.1% y-o-y decline in July - still deflationary, but a marked shift from the -1.2% low observed in March. The primary contributor to cost escalation was electricity, with production and distribution costs rising 4.1% in July, following a sharp 36% month-on-month increase in June. Additional upward pressure came from water supply costs (+12.1% y-o-y) and labour (+5.9% y-o-y). These increases were partially offset by significant declines in coal and petroleum products (-6.2% y-o-y), intermediate mining and quarrying inputs (-3.8%), and financing costs (-8.5%).

The graph below illustrates trends in mining input costs, both including and excluding labour, alongside the PPI for Final Manufactured Goods.

**Figure 1: Total Mining Input Costs**



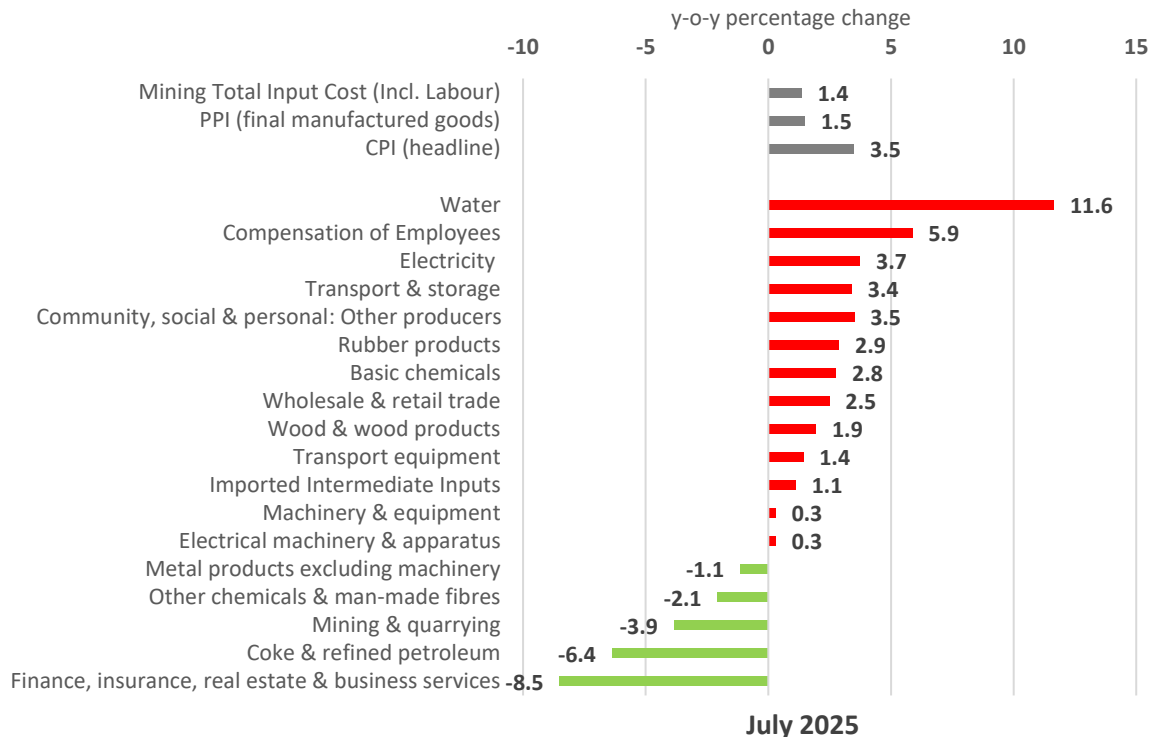
Source: Statistics SA & Minerals Council

Figure 2 below illustrates the cost categories that contributed to the annual headline figure. July marked the beginning of the municipal financial year, which brought an 11.6% year-on-year (y-o-y) increase in water supply rates. Water remains a critical input in mining operations, where it is used extensively for washing and treating mined ores and stockpiles as well as cooling underground mines. In addition, labour costs rose by 5.9% y-o-y, reinforcing labour's role as a significant driver of input costs in the mining sector. This increase is nearly double the 3.0% y-o-y average for headline Consumer Price Inflation (CPI) recorded up to July 2025. Electricity costs also climbed further in July, following a sharp 36% month-on-month increase in June. July represents the first full month under winter electricity tariffs for intensive electricity users.

On a more positive note, several cost categories provided relief over the year:

- Financing costs declined by 8.5% y-o-y
- Coke and refined petroleum products fell by 6.4% y-o-y, largely due to lower Brent crude prices
- Intermediate mining and quarrying input costs improved by 3.9% y-o-y.

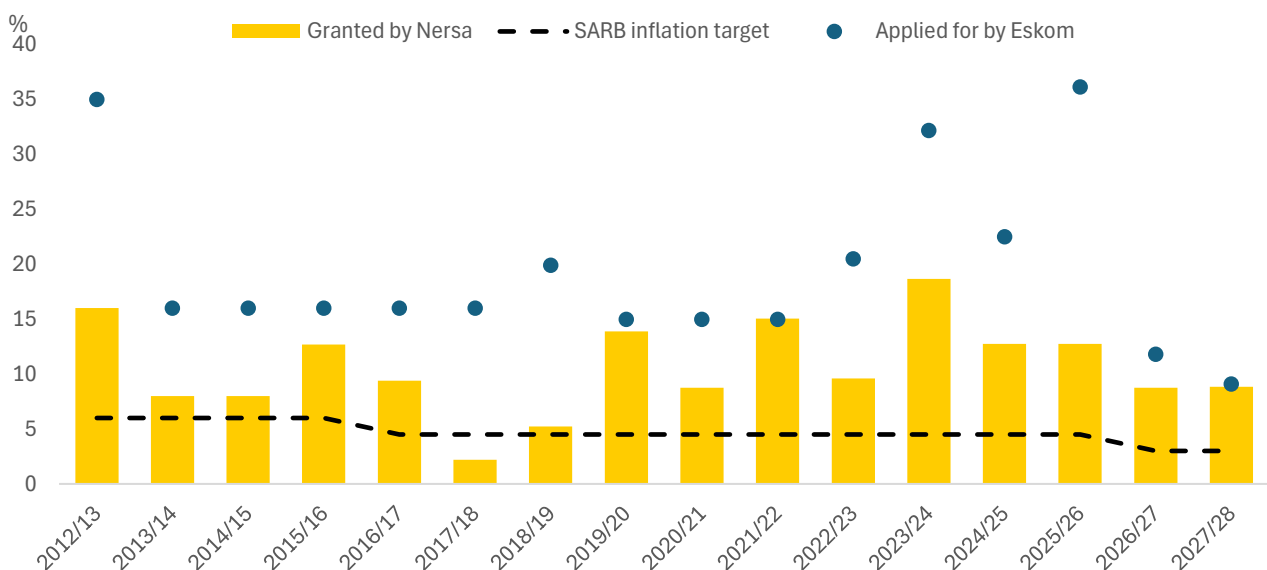
**Figure 2: Annual change in key components of MCI Cost Index**



Source: Minerals Council

To highlight the impact of electricity tariff increases, Figure 3 presents a comparison of the tariff rates proposed by Eskom over the years and the rates approved by the National Energy Regulator of South Africa (Nersa).

**Figure 3: Electricity Tariff Increases**



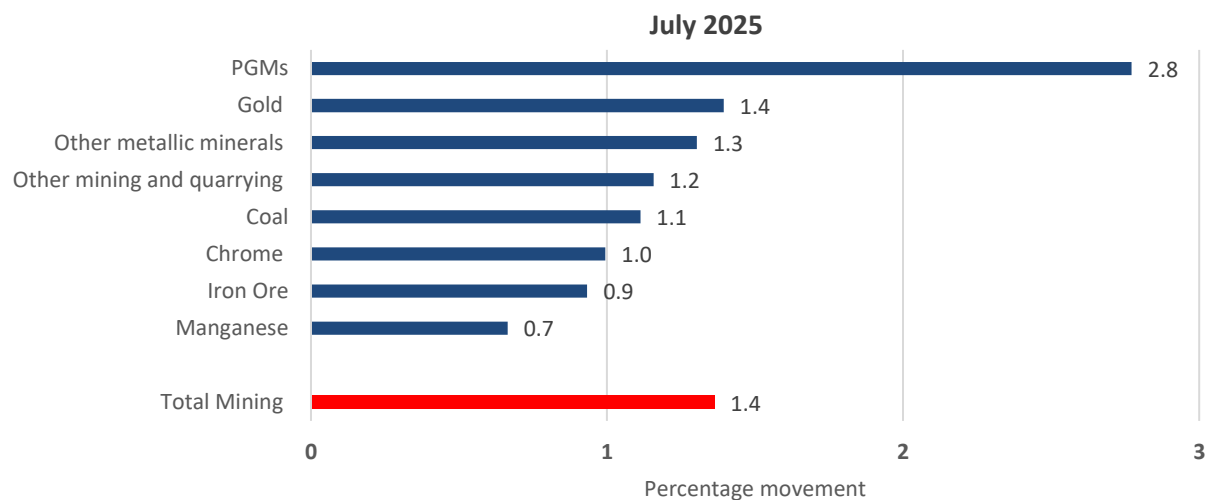
Source: Minerals Council

Electricity tariff increases have consistently outpaced consumer inflation. Over the 16-year period illustrated, the average annual increase approved by the Nersa was 10.7%, compared to an average Consumer Price Index (CPI) of 5.2% between 2012 and 2024 - more than double the inflation rate. These elevated electricity costs continue to place significant pressure on profitability and competitiveness in the mining sector and other energy-intensive industries. In particular, high tariffs are contributing to a decline in steel production and smelting activity in South Africa, while prompting mining operations to explore lower-cost renewable energy alternatives such as wind and solar. These options reduce mining companies' carbon footprints, making their mineral production greener, and cutting their exposure to carbon taxes.

This shift is likely to intensify the financial strain on Eskom, which faces a vicious cycle of increased electricity tariffs leading to reduced electricity sales, which in turn necessitate further tariff increases—deepening the utility's difficulties.

Figure 4 below illustrates the y-o-y increase in mining input costs per commodity subsector for July. These differences continue to reflect the distinct cost structures of each subsector, with the latest 2024 weightings applied to ensure accuracy and comparability.

**Figure 4: Commodity-Specific Input Cost Inflation**



Source: Minerals Council

In July, the Platinum Group Metals (PGM) sector continued to record the highest increase in input costs, followed closely by the gold sector. Both PGM and gold operations are typically deep-level and underground, requiring intensive use of electricity and water for cooling, pumping, and ventilation, as well as large labour forces to sustain production. Cost pressures were also evident across other metallic minerals, general mining and quarrying, and coal operations. In contrast, the manganese and iron ore sectors experienced the lowest input cost inflation among major commodities, reflecting more stable cost dynamics in those subsectors.

## Conclusion

Mining input costs edged higher in July, driven by rising labour expenses and administered prices, particularly electricity and water. While the overall increase in the MCI Cost Index was modest, the impact of winter tariffs and municipal rate hikes was significant, with labour inflation nearly double the headline CPI. On the electricity front, Nersa's settlement with Eskom following a legal dispute will

allow the utility to recover an additional R54 billion over two years, raising future tariffs to 8.76% in 2026/27 (up from 5.36%) and 8.83% in 2027/28 (up from 6.19%), respectively. These increases will intensify cost pressures across the mining and smelting industries, further eroding competitiveness, undermining planning certainty, and constraining ambitions to expand beneficiation.

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