

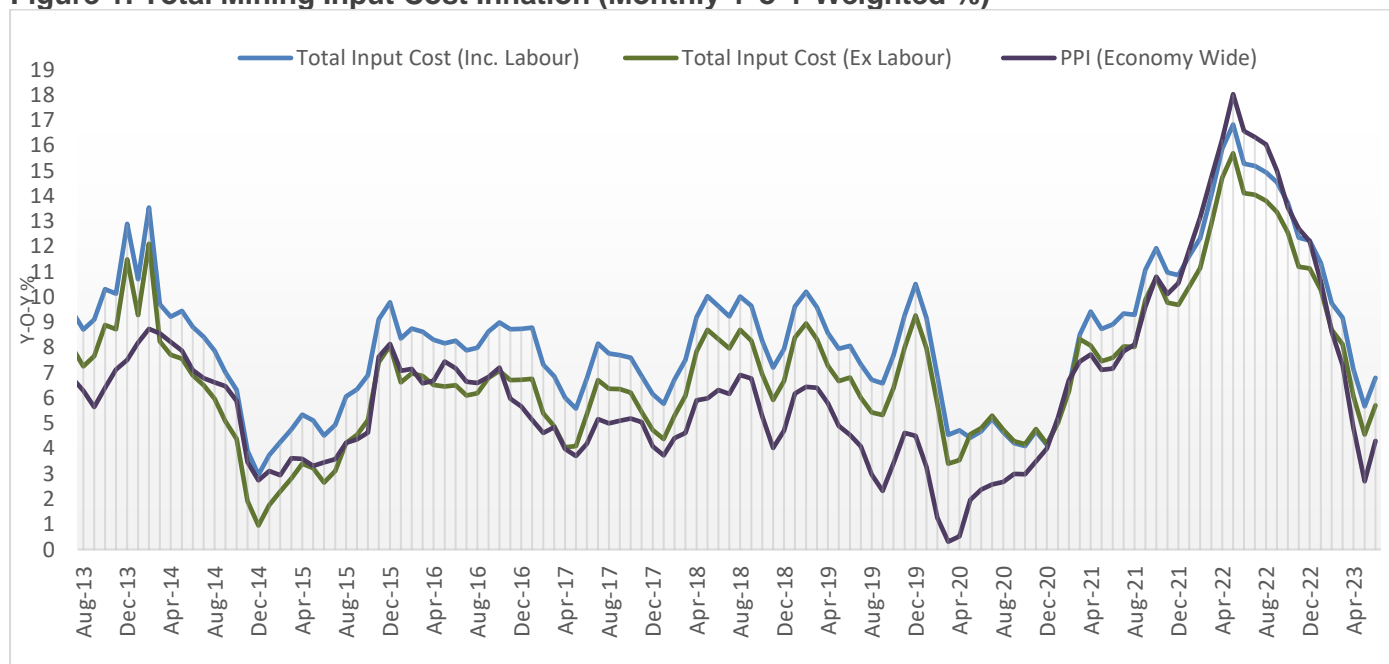
Update: Mining Input Cost Inflation – August 2023

Summary:

1. In **August**, year-on-year mining input cost inflation increased to **6.8%** from July's 5.7%. (see Figure 1).¹
2. The main contributors to mining input cost inflation for **August** were:
 - *Electricity, gas and water* (up 18.7% Y-o-Y),
 - *Machinery and equipment* input prices (up 14.2% Y-o-Y),
 - *Finance, insurance, real estate and business services* input prices (up 11.8% Y-o-Y) and
 - *Imported intermediates* (up 11.1% Y-o-Y) (see Figure 2).
3. The increase from July to August 2023 was driven by price increases in *coke and refined petroleum* inputs (up 2.4% M-o-M), *imported intermediate inputs* (up 1.8% M-o-M), and *machinery and equipment* inputs (up 1.4% M-o-M). (see Figure 3).
4. Gold recorded the highest input cost inflation levels at 8.7% for the second consecutive month. Coal experienced the smallest input price increase in the industry in August at 5.8% (see Figure 5).

As can be seen in Figure 1 below, the trend in input cost inflation in 2023 remains a positive development. Year-to-date mining input cost inflation for 2023 stands at 9.3%, lower than the 13.5% recorded in the same period of 2022. The slight uptick in input costs for August signals a return to long-run average levels for the industry at around 7 to 8%.

Figure 1: Total Mining Input Cost Inflation (Monthly Y-o-Y Weighted %)

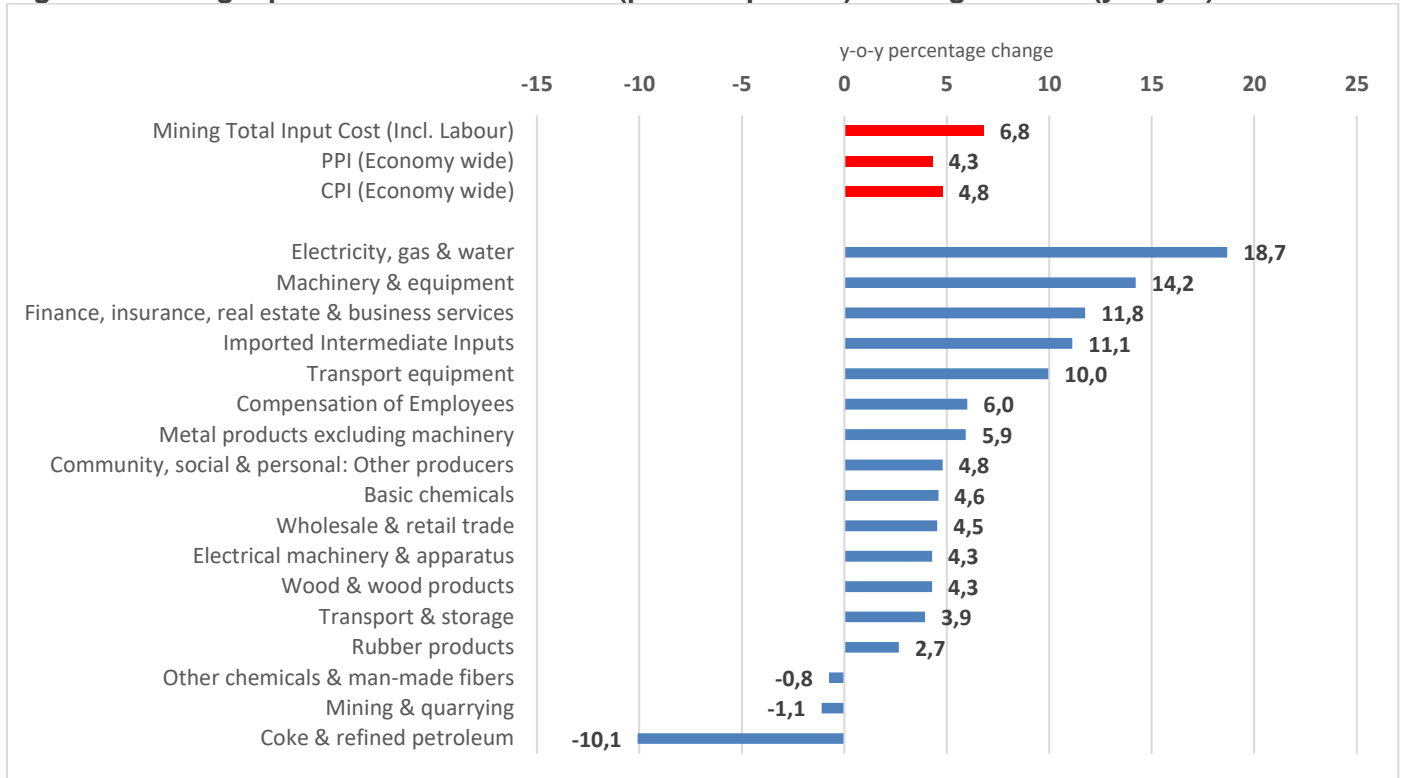


Source: Statistics South Africa & Minerals Council

¹ The input cost inflation previously reported for July 2023 was 5.8%. Upon revisions and data updates in this edition, this moderated to 5.7% (i.e., a 0.05% margin point error).

Figure 2 below illustrates the contributors to overall mining input cost inflation. We illustrate the total mining input cost inflation in August (which amounted to 6.8%) and the individual components that contributed to the headline figure. For comparison, we also show Consumer Price Inflation (4.8%) and Producer Price Inflation (4.3%) for August 2023.

Figure 2: Mining Input Cost Inflation Levels (per Component) for August 2023 (y-o-y %)

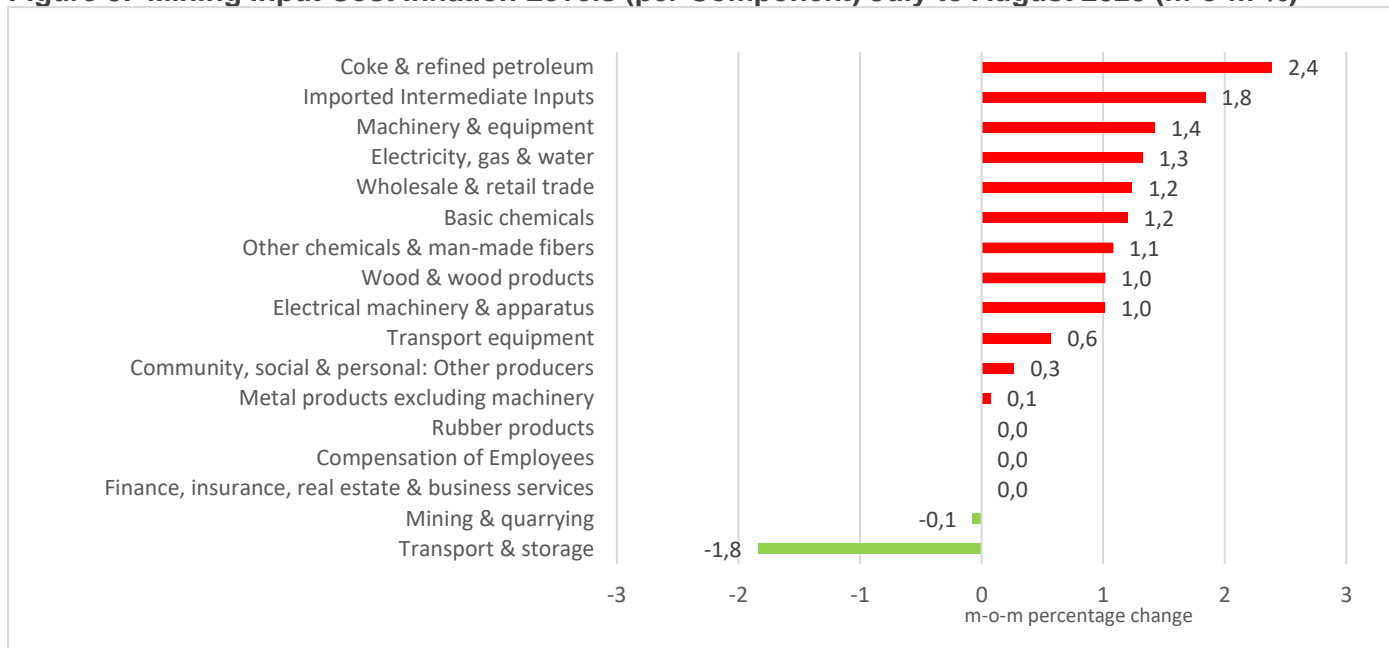


Source: Statistics South Africa & Minerals Council

The breakdown of the individual components that contributed to total mining input cost inflation, as shown above, clearly illustrates sustained high levels of inflation for *electricity, gas and water* (18.7%, down from 19.1% in July) *machinery and equipment* inputs (14.2%, up from 13.8% in July), and *finance, insurance, real estate and business services* (11.8%, unchanged from July) and *imported intermediate inputs* (11.1%, up from 8.3% in July).

When comparing the price levels on a month-on-month basis i.e., price changes from July to August 2023, we gain insight into those components that are experiencing price increases as opposed to price reprieves over the short term. These month-on-month changes drove the August input cost figure upward and are illustrated below.

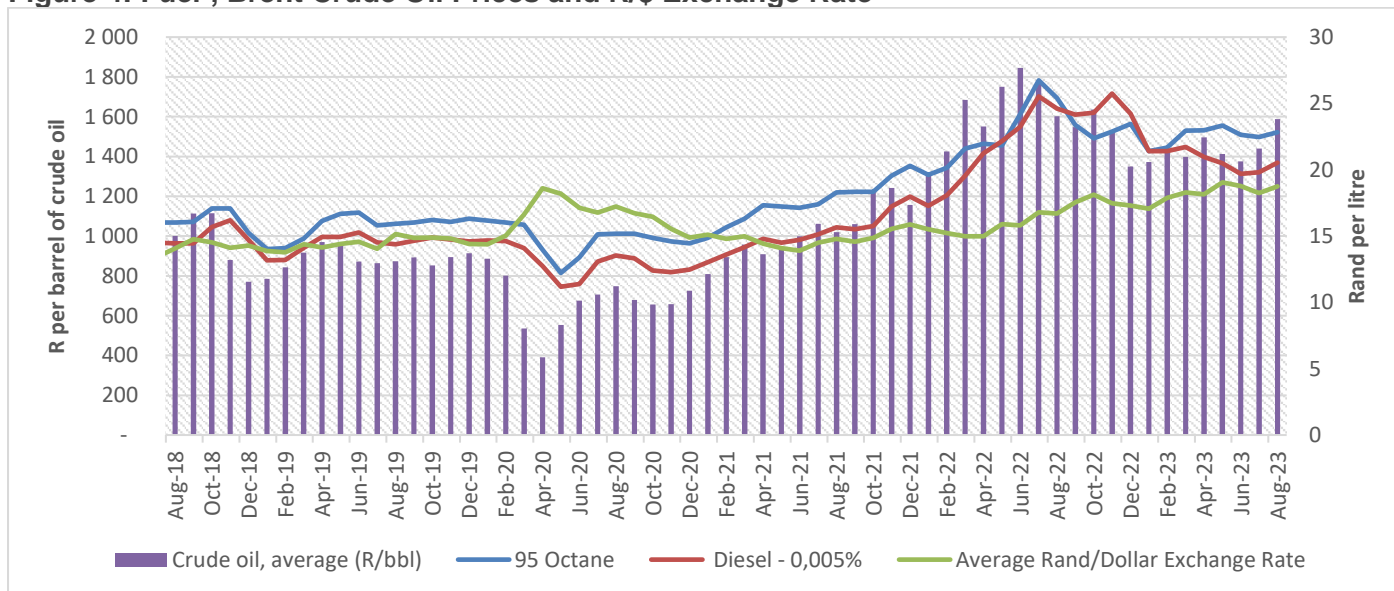
Figure 3: Mining Input Cost Inflation Levels (per Component) July to August 2023 (m-o-m %)



Source: Statistics South Africa & Minerals Council

We note that one of the main reasons for the increase in input cost inflation in August is due to the rise in crude oil, petrol and diesel prices. Below, we illustrate these dynamics.

Figure 4: Fuel-, Brent Crude Oil Prices and R/\$ Exchange Rate

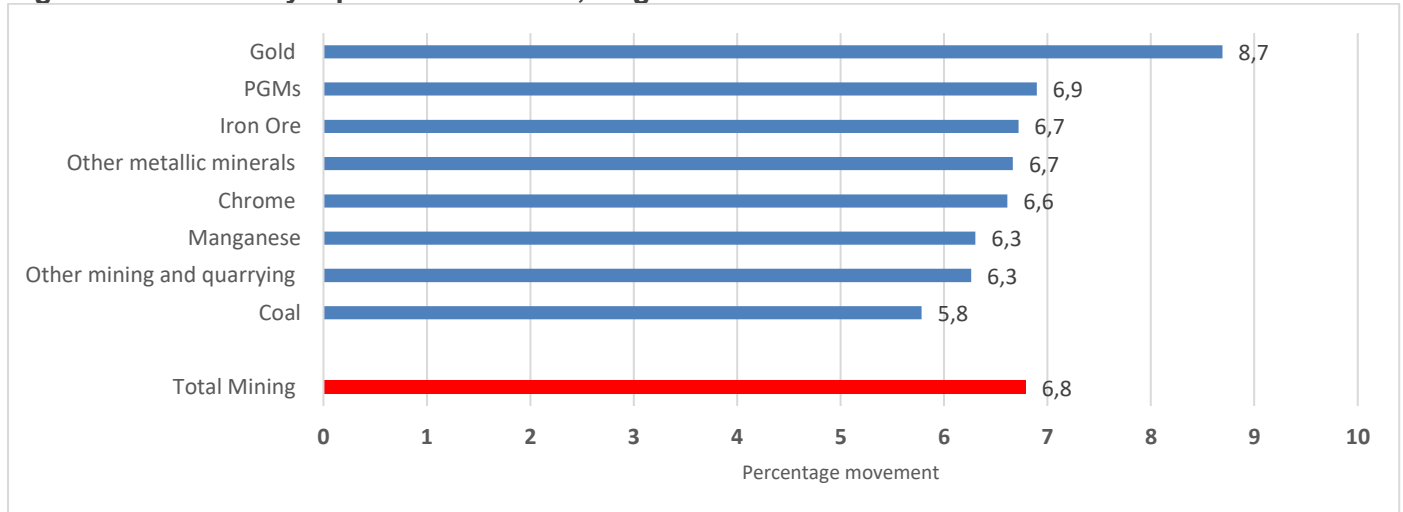


Source: Statistics South Africa, World Bank and Minerals Council

The average **crude oil** price went up to \$84.72 a barrel in August, up from \$78.98 in July while diesel prices increased to R20.53 a litre (up from R19.82). A deterioration in the exchange rate compounded these cost effects. Moreover, the local rand performed worse against our major trading partners' currencies in August (the nominal effective exchange rate deteriorated by 1.8% in August compared to July). This meant that **imported intermediate inputs** were relatively more expensive, negatively impacting mining companies that import intermediate inputs for use in the production/mining process.

Figure 5 below illustrates the average year-on-year inflationary input cost pressure per commodity for August 2023. The difference in input cost inflation levels is ascribed to the weighting of the individual components based on the economic structure of the commodities.

Figure 5: Commodity Input Cost Inflation, August 2023



Source: Statistics South Africa & Minerals Council

Gold saw the highest increases in input cost inflation for the second consecutive month followed by PGMs, iron ore and other metallic minerals. Gold is particularly affected by electricity costs, the cost of coke and refined petroleum and carbon as well as imported intermediate inputs. Iron ore saw the third largest increase in input costs in August, primarily due to higher prices for imported intermediate inputs, which make up a significant portion of their input costs.

Conclusion:

Total mining input inflation for August 2023 amounted to 6.8%, year-on-year. This was well above the economy-wide PPI for final manufactured goods over the same period of 4.3% and signals a return to long-run average levels for the industry at around 7 to 8%. The biggest component increases in total mining input inflation for August came from *electricity, gas and water* (up 18.7% Y-o-Y), *machinery and equipment* input prices (up 14.2% Y-o-Y), *finance, insurance, real estate and business services* input prices (up 11.8% Y-o-Y) and *imported intermediates* (up 11.1% Y-o-Y).

The gold, PGM and iron ore industries are experiencing distinct cost pressures in terms of electricity, more expensive imported intermediate inputs and higher costs of coke and refined petroleum products. Overall, a slight deterioration in the nominal effective exchange rate and higher crude oil prices were the main culprits for the increased input cost inflation in August 2023.

Yours sincerely,



André Lourens
Economist

Tel: +27 11 498 7100

Email: alourens@mineralscouncil.org.za