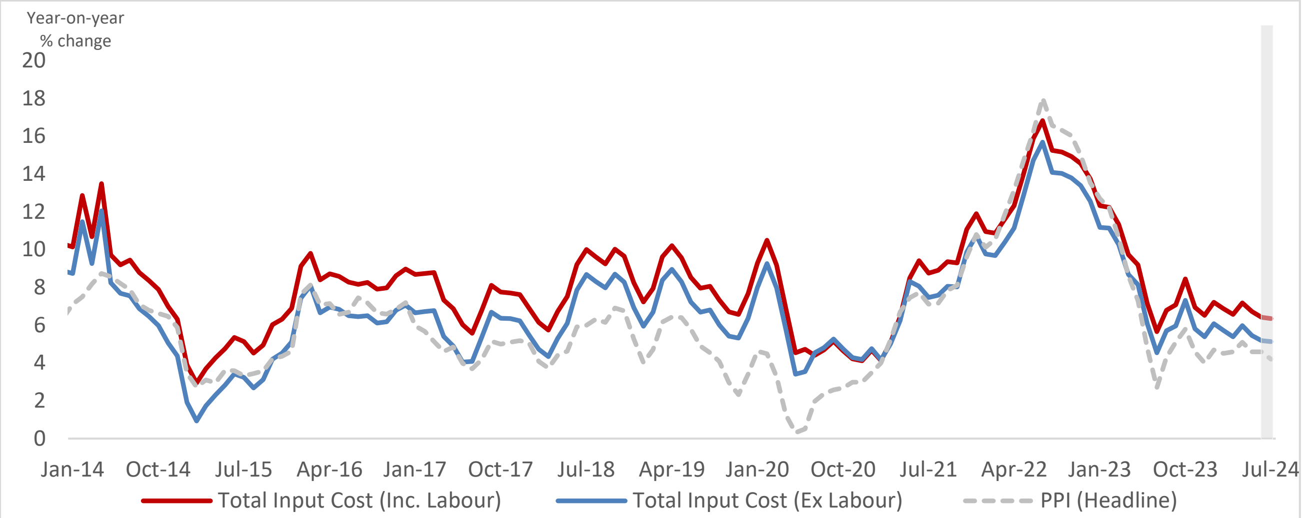
03 September 2024

Update: **Mining Input Cost Inflation – July 2024**

In July 2024, the Minerals Council's index for mining input costs recorded a 6.4% year-over-year (y-o-y) increase, matching the figure from June. Annual input cost increases have held steady the past two months, largely due to persistent winter electricity tariffs which have, all else equal, constrained further possible downward movement. Figure 1 below illustrates this trend, along with Stats SA's Producer Price Index (PPI) for July, which moderated further to 4.2% y-o-y.

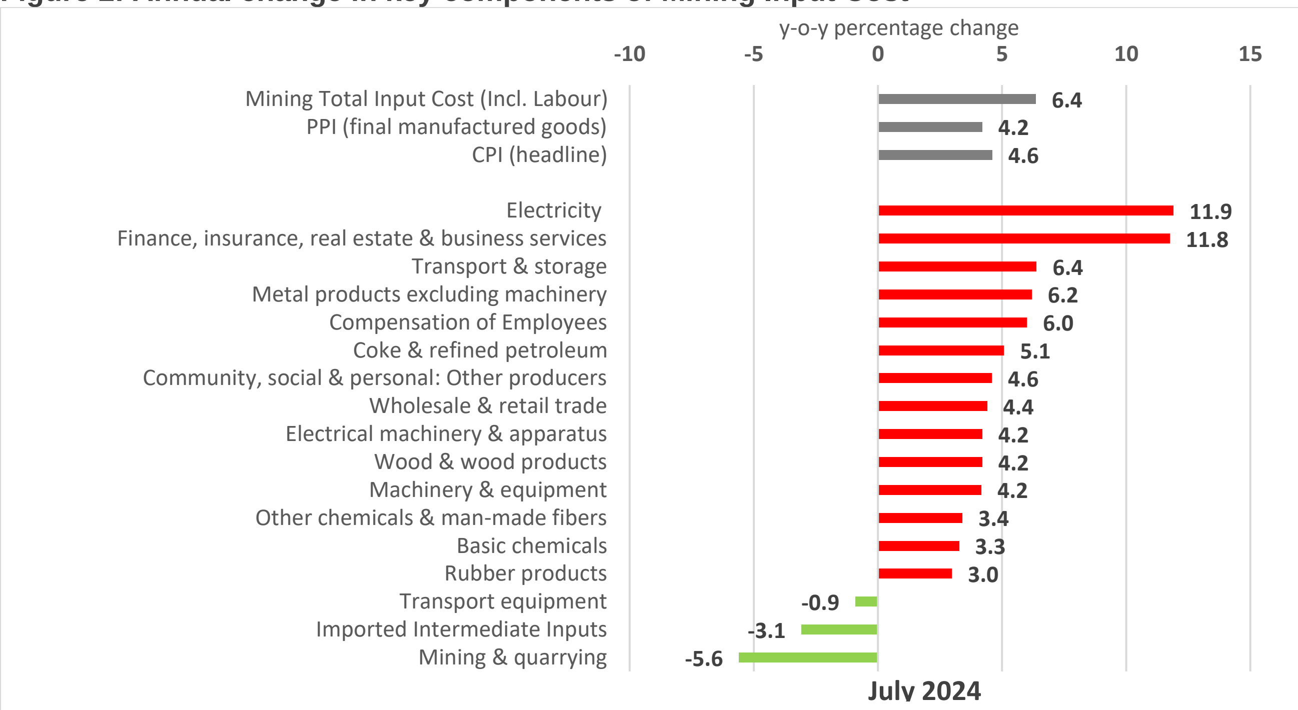
Figure 1: Total Mining Input Cost Inflation



Source: Statistics SA & Minerals Council

Input cost inflation averaged 6.8% y-o-y in the first seven months of 2024, significantly lower than the 9.7% recorded during the same period in 2023. A closer examination of the factors driving total mining input cost inflation is presented in Figure 2 below. For context, we also compare these figures with consumer inflation (at 4.6% y-o-y) and producer price inflation for July 2024.

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



Source: Statistics SA & Minerals Council

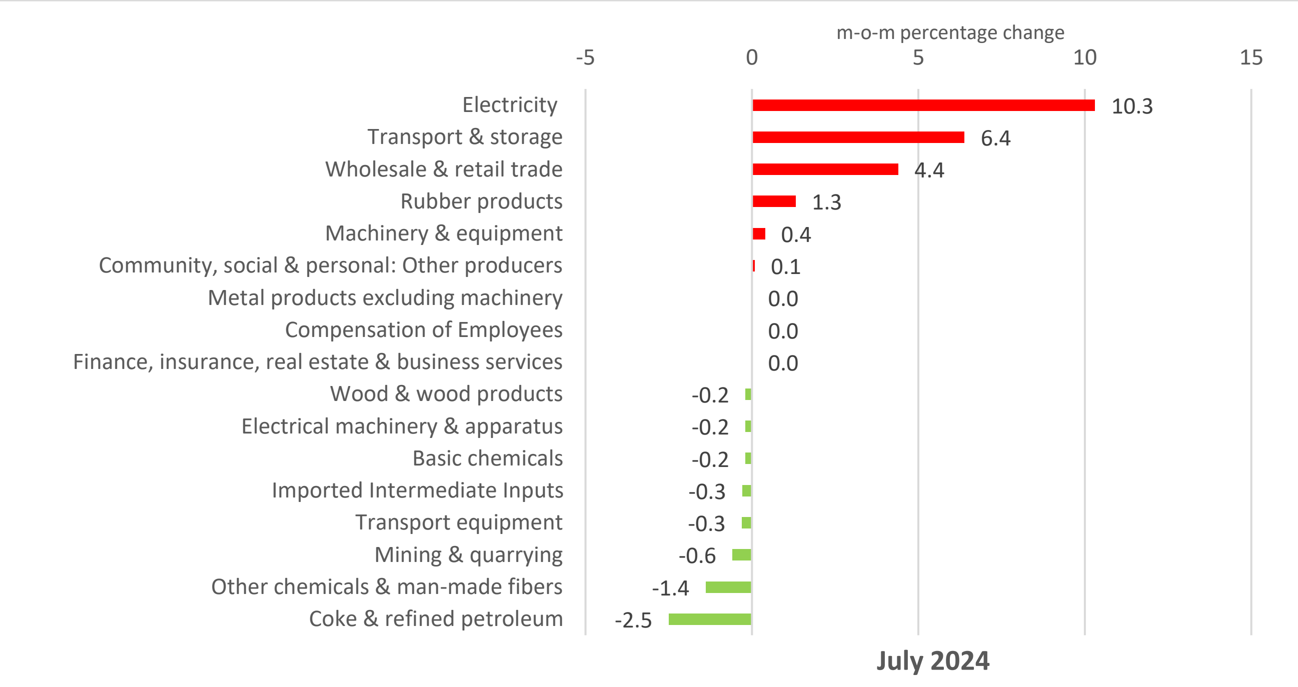
Electricity costs have emerged as the primary driver of input cost inflation, accelerating by 11.9% y-o-y. This increase, nearly three times the PPI figure for July, continues to exert significant pressure on the mining sector, which consumes about a third of South Africa's electricity when smelting operations are included. While the absence of loadshedding for more than five months is most welcome, the cost trajectory remains a concern.

Transport and storage costs rose by 6.4% y-o-y, driven by a decline in railed payloads and an increase in road freight expenses, resulting in a costlier shift towards road transportation. *Metal products* also experienced a notable increase, accelerating by 6.2% y-o-y, encompassing structural metal products like steel pipes and roof sheeting, as well as fabricated items such as hand tools. *Coke and refined petroleum* costs grew by 5.1% y-o-y, primarily due to a rise in Brent crude prices, which averaged $84.1 per barrel in July 2024, compared to $79.9 per barrel a year earlier. This uptick in crude prices over the past year has led to higher costs for petrol, diesel, and engine oils, all of which are extensively used in mining operations. However, the outlook for the next several months is much more positive. Petrol and diesel prices declined in August and September, and there is likely to be a decline in October too, leading to a decrease in y-o-y fuel costs.

On a positive note, a 5.6% y-o-y decline in intermediate *mining and quarrying* inputs helped alleviate some of the overall input cost pressures. Additionally, South Africa has benefited from a stronger rand exchange rate since the formation of the government of national unity after the May elections. This is reflected in the nominal effective exchange rate having strengthened by 3.1% y-o-y, reducing the costs of *imported intermediate inputs* for the sector.

By comparing price changes from June 2024 to July 2024, we can identify which components have experienced short-term price increases and which have seen price decreases.

Figure 3: Monthly Mining Input Cost Changes

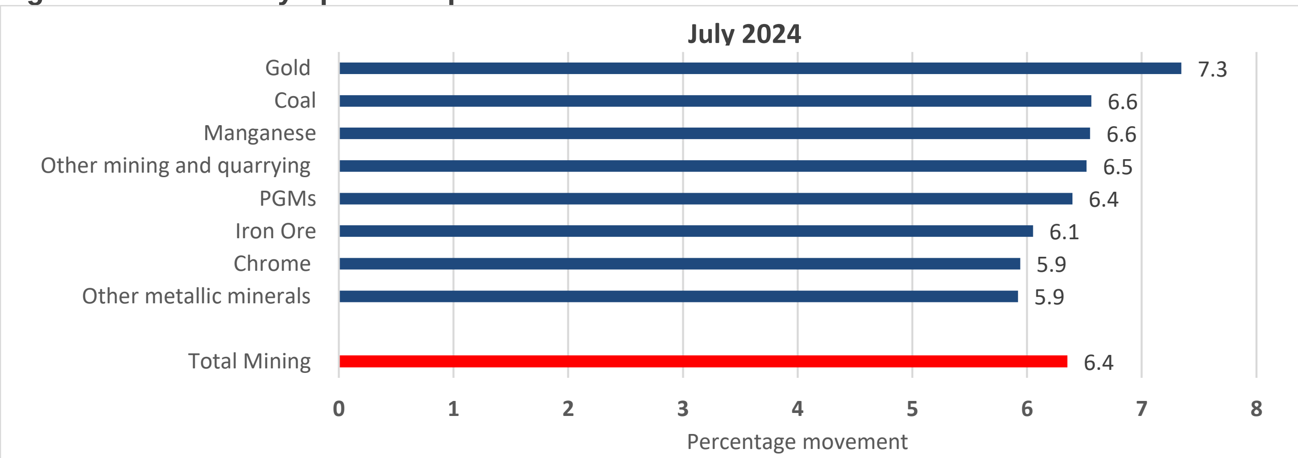


Source: Statistics SA & Minerals Council

We see a continuation of a significant month-on-month (m-o-m) increase in electricity prices. July marks the first full month of winter industry tariffs, which last until September. We therefore see a further 10.3% m-o-m increase for July on top of the 37% m-o-m increase seen in June. Conversely, over the past three months, the stronger rand dollar exchange rate and steady Brent crude oil prices have led to a 2.5% m-o-m decrease in the price of *coke and refined petroleum*. This decrease has indirectly provided cost relief for the *other chemicals and synthetic fibres* subgroup.

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

In July, the gold sector had the highest average increase in input cost inflation for the seventh consecutive month. Following the gold sector, the coal, manganese, and other mining and quarrying sectors experienced the next fastest rise in input costs.

Conclusion:

In July 2024, the Minerals Council's index of mining input costs rose by 6.4% y-o-y, unchanged from June's figure. While the pace of mining input cost inflation has moderated compared to last year, significant pressures remain, particularly from rising electricity and transport costs. The sector has benefited from 158 days without loadshedding, highlighting the improved availability of electricity, yet this has been counterbalanced by escalating winter tariffs, creating tension between cost and supply. Additionally, a stronger rand has provided some relief by lowering the cost of imported inputs, while steady Brent crude prices have contributed to a recent decline in coke and refined petroleum costs – with the outlook for fuel prices positive over the coming months. Sector-specific analysis shows that the gold sector continues to experience the highest input cost inflation, followed by the coal, manganese, and other mining and quarrying sectors.

Yours sincerely,

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