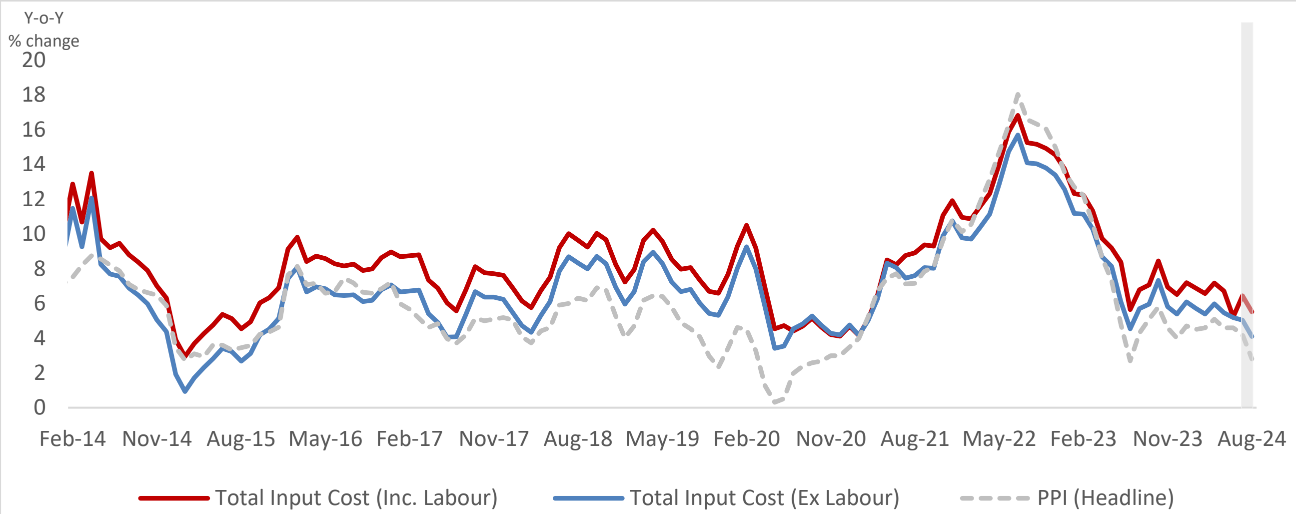
03 October 2024

August 2024 Mining Input Cost

In August 2024, the Minerals Council's index for mining input costs eased further, showing a year-over-year (y-o-y) increase of 5.5%, down from 6.4% in July. Input cost rises peaked in January 2024 at 7.2% and has steadily slowed since. Figure 1 highlights this trend, alongside Stats SA's Producer Price Index (PPI) for August, which saw a significant moderation to 2.8% y-o-y, down from 4.2% in July.

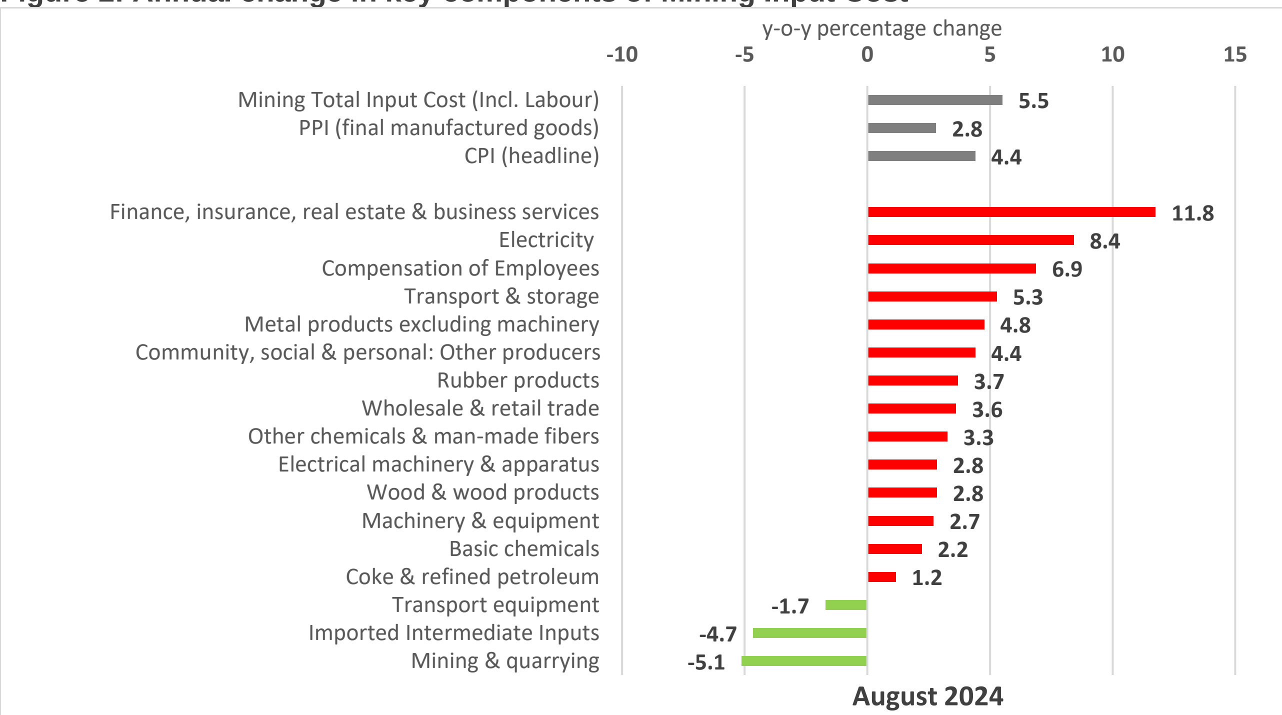
Figure 1: Total Mining Input Cost Inflation



Source: Statistics SA & Minerals Council

Mining input cost inflation averaged 6.5% y-o-y in the first eight months of 2024, notably lower than the 9.5% recorded during the same period in 2023. Figure 2 below provides a breakdown of the factors contributing to total mining input cost inflation. For comparison, the figures are presented alongside consumer inflation (4.4% y-o-y) and producer price inflation for August 2024.

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



Source: Statistics SA & Minerals Council

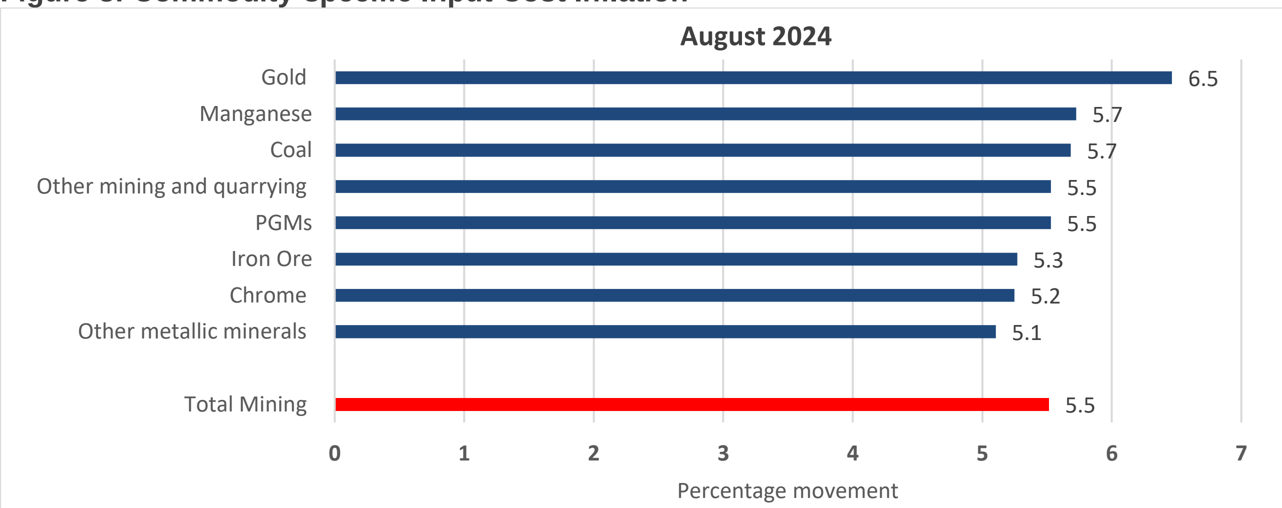
Aside from financing costs, *electricity* remains a key driver of input cost inflation, rising by 8.4% y-o-y - three times the August PPI figure - continuing to place considerable pressure on the mining sector. August represents the last full month of winter electricity tariffs, and increase for the electricity component is expected to slow in September with standard (lower) summer tariffs fully resuming in October. However, Eskom's submission of the Multi-Year Price Determination (MYPD) 6 revenue application, which seeks tariff increases of approximately 57% over the next three financial years (FY2026-2028), remains a significant concern for the energy-intensive mining industry.

In August, *employee compensation* fully reflected the annual wage increases implemented in July. Wage growth averaged 6.9% compared to the same period last year - a key cost driver. Since labour is a major expense and wage agreements are typically locked in for three years, this increase reflects the above-inflation wage hikes that have become common in parts of the mining sector in recent years. With general inflation expected to continue to ease going forward, these elevated wage increases could contribute to inflationary pressures if labour productivity growth does not keep pace (i.e., if unit labour costs increase).

Furthermore, t*ransport and storage* costs rose by 5.3% y-o-y, down from the 6.4% recorded in July. The increase, though smaller, was driven by a reduction in railed payloads - Stats SA data shows August's rail freight payload dropped to 13 million tonnes from 13.84 million tonnes a year ago - while rail freight expenses rose. This combination of moving less at higher costs contributed to the increase in transport and storage expenses. On a positive note, a further 5.1% y-o-y decline in intermediate *mining and quarrying* inputs helped alleviate some of the overall input cost pressures. Additionally, the continued stronger exchange rate is reflected in the nominal effective exchange rate having strengthened by 4.7% y-o-y, reducing the costs of *imported intermediate inputs* for the sector.

Figure 3 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 3: Commodity-specific Input Cost Inflation



Source: Statistics SA & Minerals Council

In August, the gold sector had the highest average increase in input cost inflation maintaining this ranking throughout the year. Following the gold sector, the manganese, coal, and other mining and quarrying sectors experienced the next fastest rise in input costs.

Conclusion:

August 2024 marked a continued easing in mining input cost inflation, with a year-over-year increase of 5.5%, down from the peak of 7.2% in January. While factors like electricity and wage growth remain significant contributors to cost pressures, particularly in the energy-intensive mining industry, there are signs of relief in certain areas. Transport costs, though still elevated, have shown a slight decrease, and the stronger exchange rate has helped offset some input costs, particularly for imported goods. Looking ahead, a further decline in fuel costs during October and early indications for yet another decline in November should assist in a sustained near-term easing of input costs.

Yours sincerely,

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