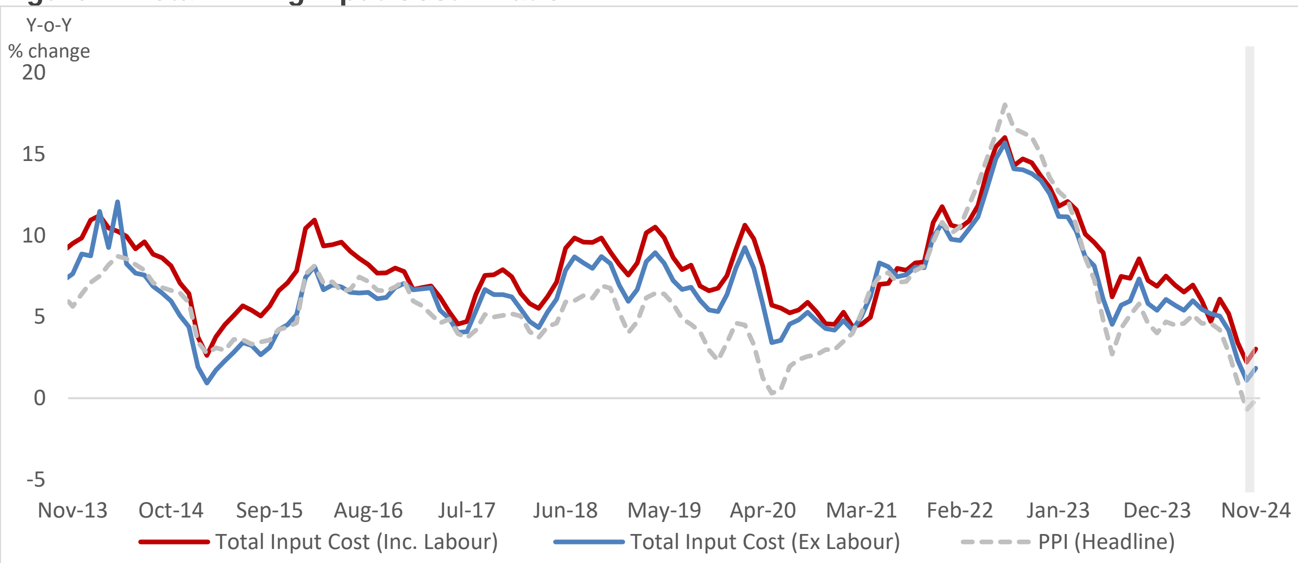
17 December 2024

MINERALS COUNCIL SOUTH AFRICA

Mining Input Costs Reach Lowest Levels of 2024 in October and November

In November 2024, the Minerals Council South Africa's index for mining input costs showed continued muted inflationary pressures. Even so, the rate of increase accelerated somewhat to 3.0% year-on-year (y-o-y), from the 2.2% recorded in October. Mining input costs aligned with Stats SA's Producer Price Index (PPI) for November, which registered at -0.1% y-o-y, compared to -0.7% in the prior month - a slight deceleration in the rate of annual deflation.

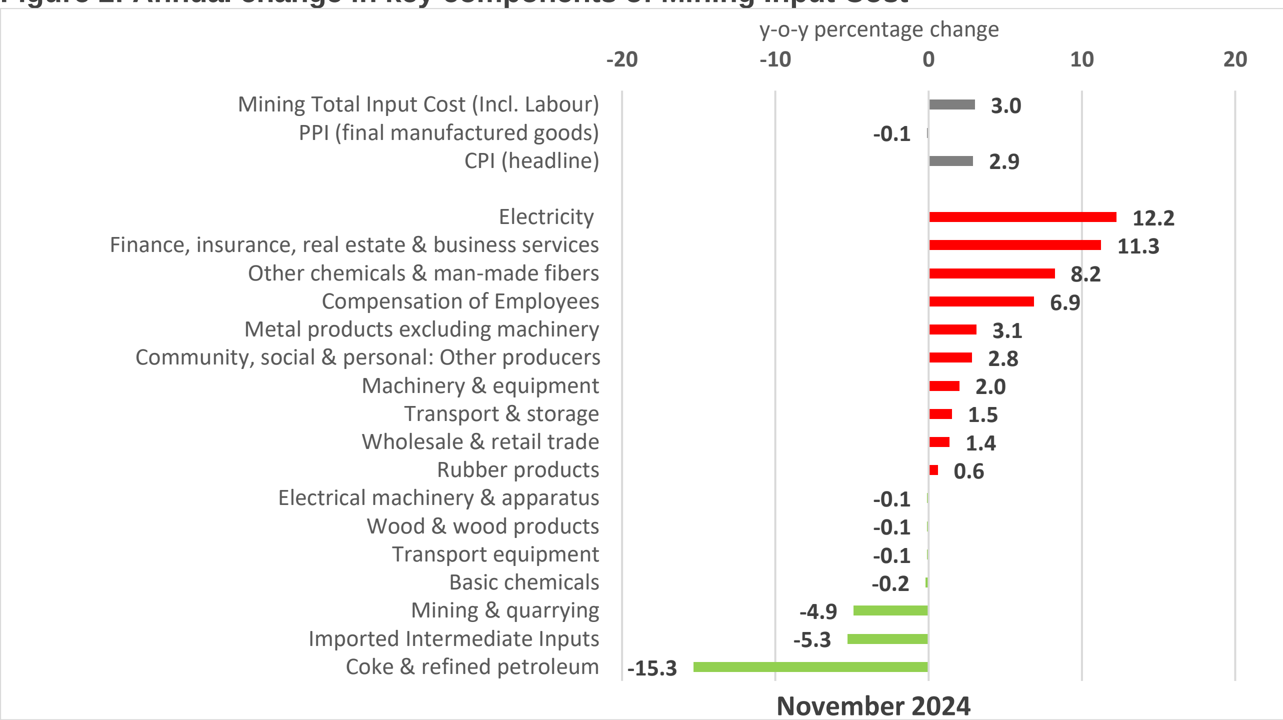
Figure 1: Total Mining Input Cost Inflation



Source: Statistics SA & Minerals Council SA

Figure 2 below provides a breakdown of the factors contributing to total mining input cost inflation in November. For comparison, the figures are presented alongside consumer inflation (2.9% y-o-y) and producer price inflation.

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



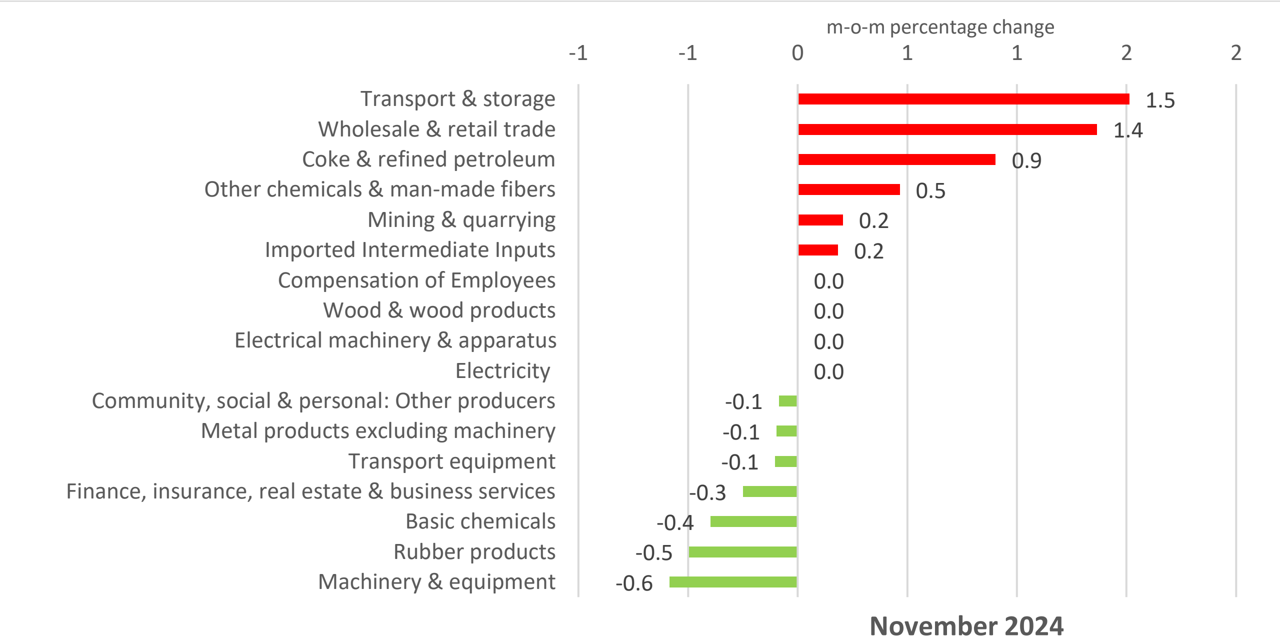
Source: Statistics SA & Minerals Council SA

Excluding financing costs, which eased in November following the South African Reserve Bank's (SARB) reduction of the prime lending rate to 11.25%, electricity costs remain a key driver of input cost inflation, rising by 12.2% year-on-year (y-o-y). Following the end of winter electricity tariffs (June to September), the 12.2% increase reflects NERSA's approved 12.72% tariff hike for the 2024/25 financial year. The slightly lower-than-approved increase is attributed to delays in implementation by some municipalities, which have yet to conduct cost-of-supply studies. Additionally, the cost of other chemicals and synthetic fibers continued to climb, recording an 8.2% y-o-y increase in November, driven by higher expenses for mining chemicals, prepared explosives, and chemical catalysts.

On a positive note, the mining sector benefited from a stronger exchange rate, with the nominal effective exchange rate appreciating 5.3% y-o-y. This improvement has helped reduce the cost of imported intermediate inputs within the sector. To be sure, intermediate mining and quarrying inputs declined by 4.9% y-o-y, further alleviating some of the sector's input cost pressures.
November also saw a notable reduction in crude oil prices, which fell by 10.6% y-o-y to $73.5 per barrel, down from $82.2 per barrel in November 2023. This decrease significantly eased costs for coke and refined petroleum products, providing additional relief from inflationary pressures within the mining sector.

By comparing price changes from October 2024 to November 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

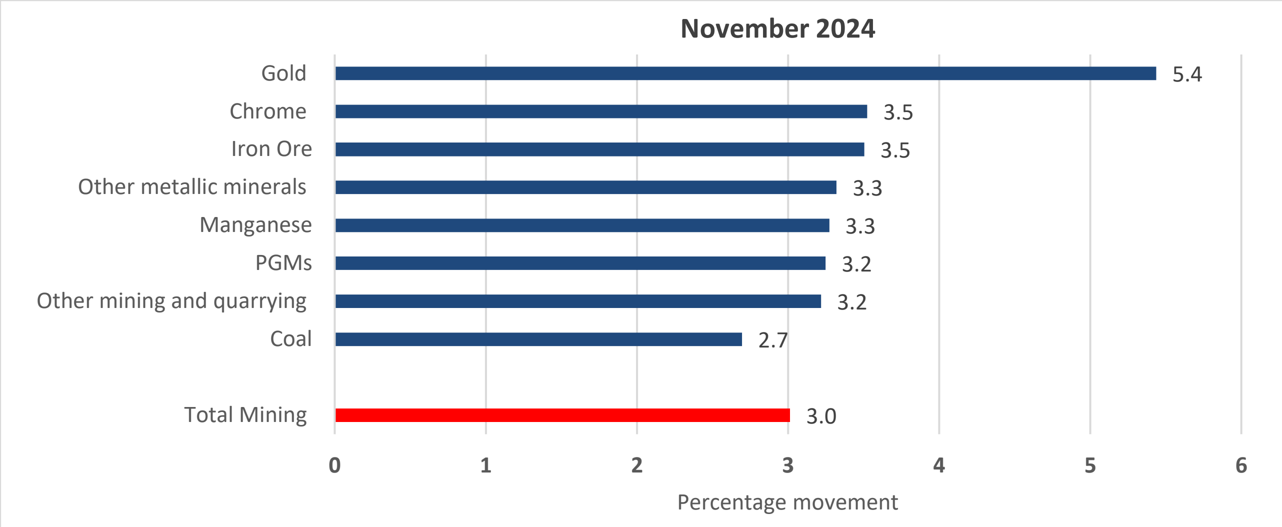


Source: Statistics SA & Minerals Council SA

In November, transport and storage costs rose by 1.5% month-on-month (m-o-m), while wholesale and retail trade prices increased by 1.4%. Despite road and rail payloads remaining mostly unchanged, a rise in rail costs added pressure to mining profitability, as reflected in transport and storage costs. The increase in wholesale and retail trade was driven by a slight uptick in consumer inflation and the Producer Price Index for manufactured goods. Additionally, crude oil prices saw a marginal increase, rising to $73.5 per barrel. This led to a slight increase in refined petroleum prices, which was reflected in a 20-cent per litre rise in diesel prices in November. On a positive note, machinery and equipment prices decreased by 0.6% m-o-m, while rubber products and basic chemicals saw declines of 0.5% and 0.4%, respectively.

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 November, as has been the case so far this year, the gold sector had the highest average increase in input cost inflation. Following the gold sector, the chrome, iron ore, and other metallic minerals sectors (which include metals such as silver, cobalt, lead and titanium) experienced the next fastest rise in input costs.

Conclusion:

Looking ahead to December, the outlook remains mixed. Persistent electricity price pressures and rising transport costs may continue to strain mining profitability. The recent closure of border posts in Mozambique, critical for coal and chrome exports to Maputo, could exacerbate transport costs as miners are forced to use longer, more expensive alternative routes. This could likely be reflected in the cost of transportation component of our index given similar payloads. However, the direct impact may be muted due to challenges in measuring the relationship between distances and payloads per commodity, as well as the potential substitution between road and rail transportation. We might therefore not see this lived experience translate into a measurable impact as reflected by our index. Beyond December, uncertainty surrounding the potential start of a Trump presidency in January, coupled with ongoing volatility in the Middle East, could impact the rand exchange rate and crude oil prices. This may not only limit the scope for further interest rate reductions but also add additional pressure to mining input costs going into 2025.

Yours sincerely,

André Lourens

André Lourens

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

- ENDS -