



# MEDIA STATEMENT

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## MINING PRODUCTION STILL CONTRACTING, DESPITE HOPES OF COMMODITIES REBOUND

**Johannesburg, 8 December 2016:** The mining production data released today by Statistics South Africa for October paints a gloomy picture of the sector, despite the positive contribution the sector made to the economy in the third quarter of 2016 and the hopes of a commodity rebound worldwide.

Annual production (12 months) fell by 4.6% by the end of October. If the renewed weakness shown by the October decline (-3%) in September is anything to go by, then the full year contraction may be even stronger. As at October (10 months) the sector's production already declined by over 5% this year. Relative to the peak production volumes at the beginning of 2005, the sector has now contracted by nearly 25%.

Of the different mineral groups, only iron ore (+5.2%) and coal (+8%) production increased in October relative to September. All the others declined by between 5% and 10%. Due to the large increase in production of platinum group metals in recent months, it was the only group that recorded growth (+2.2%) when measured over 12 months. However, it too recorded much lower production in October (on September) and may very well also show contraction by the end of the year.

Growth in mining production depends mostly on demand for its (exported) products emanating from growth in the international economy. South Africa exports close to 50% of its minerals to western, eastern and southern Asia; with China's growth forecast at a steady 6.5% and Japan at about 0.5% until 2018, not much acceleration in demand should be expected from those parts of the world economy. However, with better growth expected in the US (1.9% rising to over 2%) and the EU (around 1.6%) (up to 2018) some improvement could be expected, albeit small. South Africa exports around 20% of its production to the EU and about 10% to the Americas.





The latest sales data for minerals is (hopefully) an early indication of some positive feedback into the South African mining sector. The considered view is that it is much too early to come to such a conclusion, especially when the impact of ever rising domestic production costs is discounted. An improvement in the situation cannot come too soon though as employment numbers continue to fall. The latest (second quarter) official employment data (Statistics South Africa) shows a decline in half year numbers of 6.4% (from 488,746 to 457,585) and a decline of 5.3% over 12 months.

All indications are that commodity prices are bottoming out this year and mild worldwide growth would lift prices over time. It is also true, however, that the exchange rates of commodity exporters usually strengthen (all other things being equal) when their export prices improve, which may neutralise some of the expected price windfalls.

There seems to be some hope that neither demand nor prices will fall further, but to engineer the recovery will take much patience and perseverance.

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