

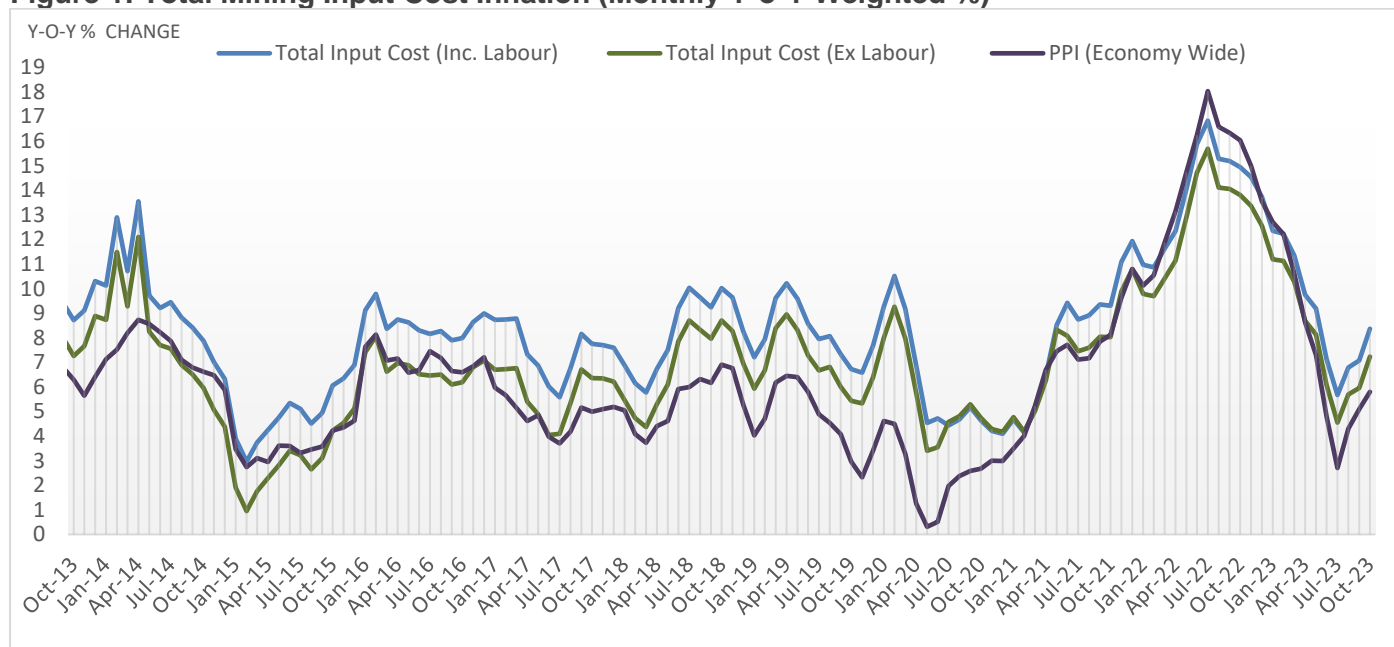
## Update: Mining Input Cost Inflation – October 2023

### Summary:

1. In **October**, year-on-year mining input cost inflation increased to **8.4%** from September's 7.1%. (see Figure 1).<sup>1</sup>
2. The main contributors to mining input cost inflation for **October** were:
  - *Electricity, gas and water* (up 17.6% Y-o-Y),
  - *Finance, insurance, real estate and business services* input prices (up 11.8% Y-o-Y),
  - *Transport and storage* (up 10.4% Y-o-Y) and
  - *Machinery and equipment* input prices (up 9.8% Y-o-Y) (see Figure 2).
3. The increase from September to October 2023 was driven by price increases in *coke and refined petroleum* (up 5.5% M-o-M), *mining and quarrying* inputs (up 1.3% M-o-M), and *wholesale and retail trade* inputs (up 1.2% M-o-M). (see Figure 3).
4. Gold recorded the highest input cost inflation levels at 9.6% for the fourth consecutive month. Manganese again experienced the smallest input price increase in the industry in October at 7.2% (see Figure 4).

Figure 1 below illustrates the trend in input cost inflation over the past 10 years. For 2023, the year-to-date mining input cost inflation stands at 9.0%, lower than the 13.8% recorded in the same period of 2022.

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

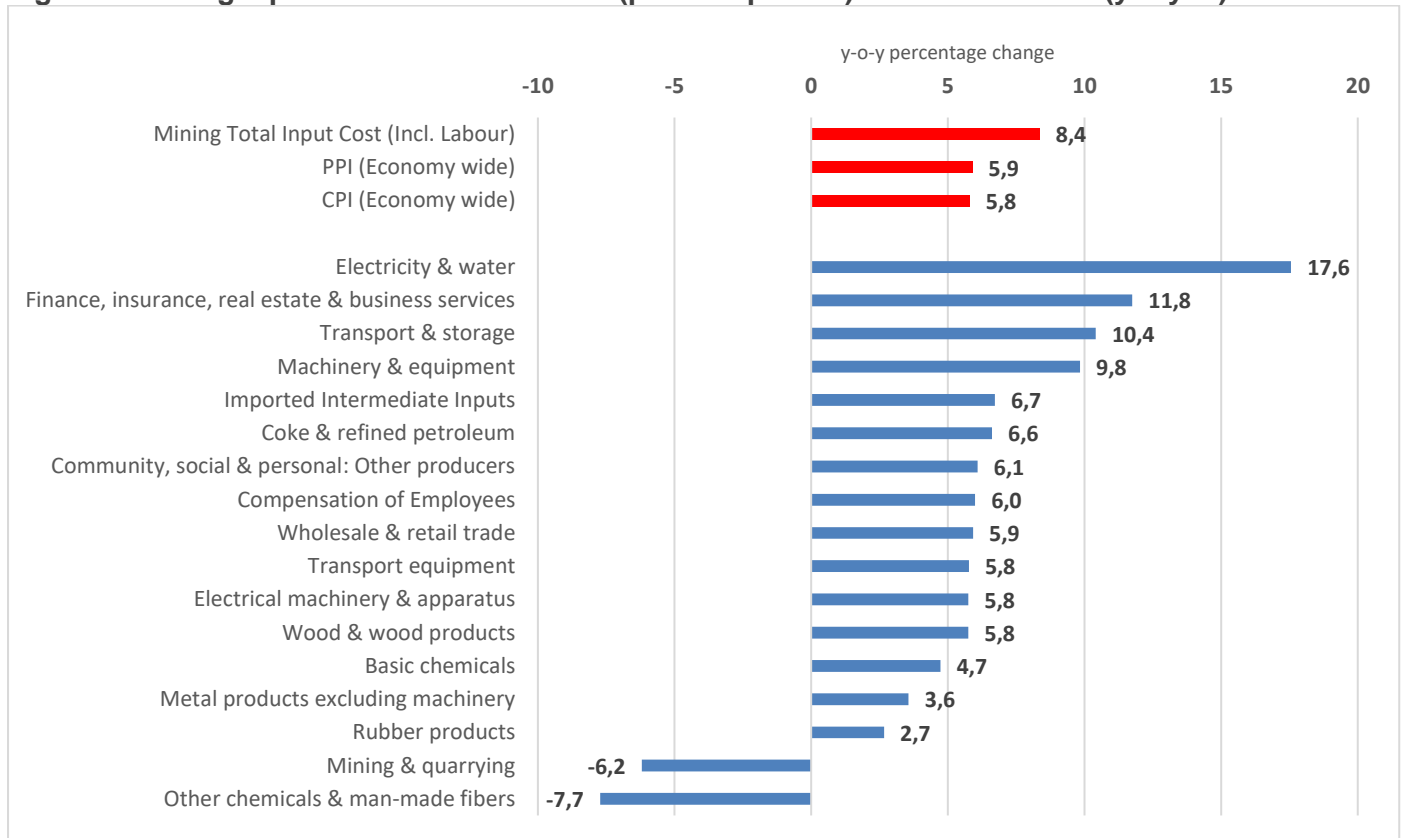


Source: Statistics South Africa & Minerals Council

<sup>1</sup> The input cost inflation previously reported for September 2023 was 7.0%. Upon revisions and data updates in this edition, this increased to 7.1% (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 October (which amounted to 8.4%) and the individual components that contributed to the headline figure. For comparison, we also show Consumer Price Inflation (5.9%) and Producer Price Inflation (5.8%) for October 2023.

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

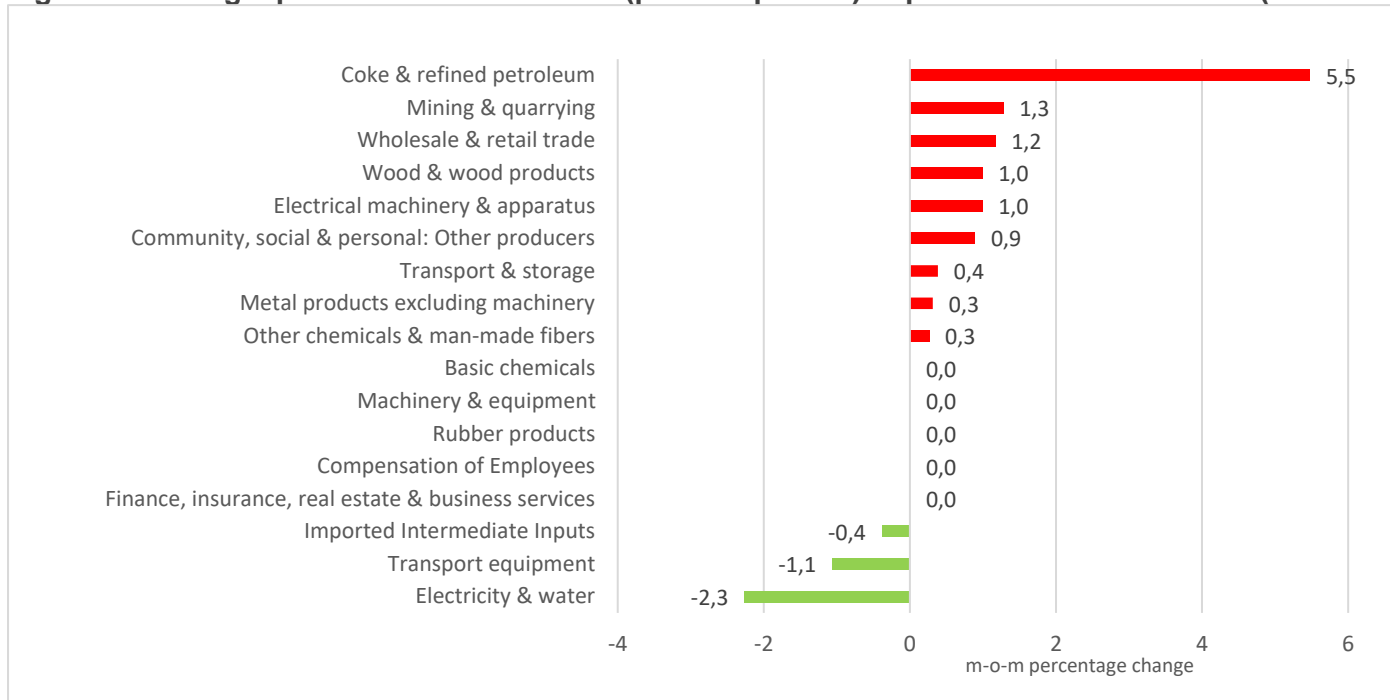


Source: Statistics South Africa & Minerals Council

The breakdown of the individual components that contributed on a year-on-year basis to total mining input cost inflation, as shown above, clearly illustrates sustained high levels of inflation for *electricity and water* (17.6%, down from 17.7% in September), *finance, insurance, real estate and business services* (11.8%, unchanged from September), *transport and storage* (10.4%, up from 5.4% in September) and *machinery and equipment* inputs (9.6%, down from 10.6% in September).

When comparing the price levels on a month-on-month basis i.e., price changes from September to October 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 October input cost figure upward and are illustrated below.

**Figure 3: Mining Input Cost Inflation Levels (per Component) September to October 2023 (m-o-m %)**

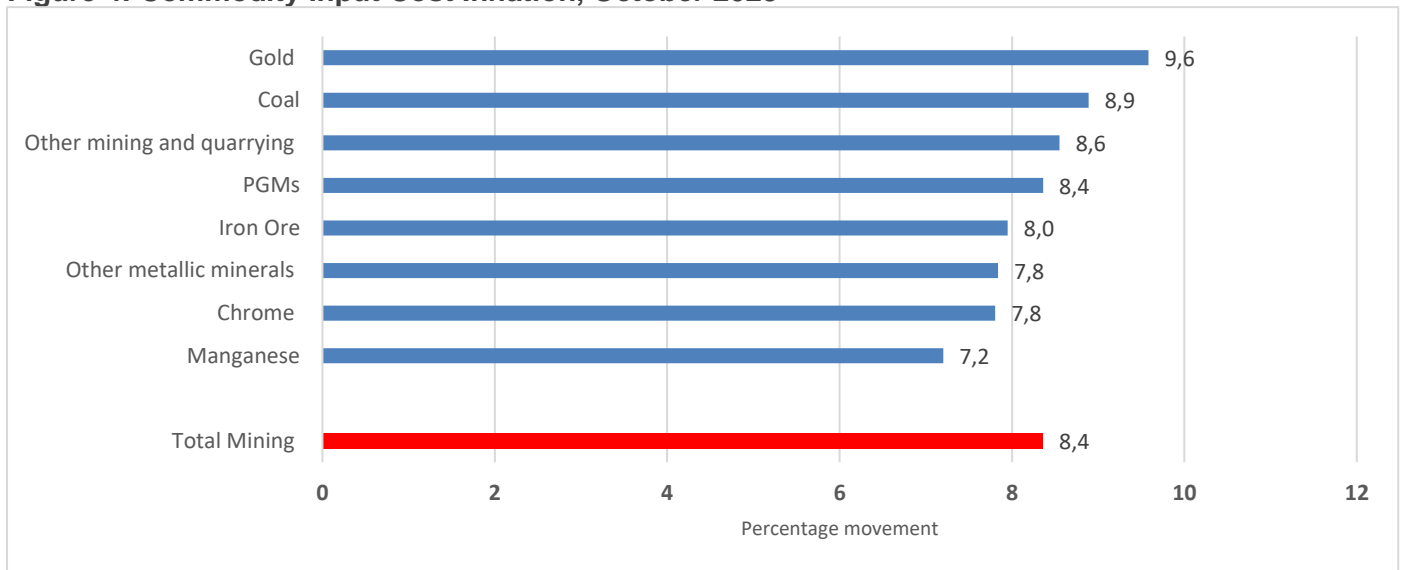


Source: Statistics South Africa & Minerals Council

We note that one of the main reasons for the increase in input cost inflation in October is due to the rise in coal prices and petroleum-derived chemical products. The average South African **coal** price went up to \$128.4 per tonne in October, up from \$99.85 in September. This had a two-pronged effect. First, higher coal prices meant that chemical processes to extract petroleum coke, petroleum bitumen and other residues of petroleum oils or of oils obtained from bituminous materials, were more expensive. Second, for those who use unprocessed coal as an intermediate input, their input costs also increased due to the higher price. This helps explain why mines saw input cost pressure for coke and refined petroleum goods and mining and quarrying inputs. October also saw a slight improvement in the nominal effective exchange rate, assisting with cheaper imported intermediates and electricity prices eased/normalised slightly after completely tapering off from winter Eskom winter tariffs.

Figure 4 below illustrates the average year-on-year inflationary input cost pressure per commodity for October 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 4: Commodity Input Cost Inflation, October 2023**



Source: Statistics South Africa & Minerals Council

Gold saw the highest increases in input cost inflation for the fourth consecutive month followed by coal, other mining and quarrying and PGMs. Gold is particularly affected by electricity costs, the cost of financing and the pressures coming from increased refined petroleum products and mining and quarrying inputs. These items alone account for 40% of total input costs for the gold industry and are all exerting upward cost pressures.

### Conclusion:

Total mining input inflation for October 2023 amounted to 8.4%, year-on-year. This was well above the economy-wide PPI for final manufactured goods over the same period of 5.8% and continues to signal a return to long-run average levels for the industry at around 8%. The biggest component increases in total mining input inflation for October came from *electricity and water* (up 17.6% Y-o-Y), *finance, insurance, real estate and business services* input prices (up 11.8% Y-o-Y), *transport and storage* (up 10.4% Y-o-Y) and *machinery and equipment* input prices (up 9.8% Y-o-Y).

The gold industry is experiencing distinct cost pressures in terms of electricity and higher costs of coke and refined petroleum products. Overall, higher coal, mining and quarrying input prices and refined petroleum products were the main culprits for the increased input cost inflation in October 2023 compared to a year earlier.

Yours sincerely,



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