

Update: Mining Input Cost Inflation – September 2023

Summary:

- In **September**, year-on-year mining input cost inflation increased to **7.0%** from August's 6.8%. (see Figure 1).
- The main contributors to mining input cost inflation for **September** were:
 - *Electricity and water* (up 17.7% Y-o-Y),
 - *Finance, insurance, real estate and business services* input prices (up 11.8% Y-o-Y),
 - *Machinery and equipment* input prices (up 10.6% Y-o-Y) and
 - *Imported intermediates* (up 8.6% Y-o-Y) (see Figure 2).
- The increase from August to September 2023 was driven by price increases in *coke and refined petroleum* inputs (up 8.8% M-o-M), *wood and wood products* (up 1.5% M-o-M), and *electrical machinery and apparatus* inputs (up 1.5% M-o-M). (see Figure 3).
- Gold recorded the highest input cost inflation levels at 8.8% for the third consecutive month. Manganese experienced the smallest input price increase in the industry in September at 5.8% (see Figure 4).

As can be seen in Figure 1 below, the trend in input cost inflation in 2023 remains a positive development. Year-to-date mining input cost inflation for 2023 stands at 9.0%, lower than the 13.7% recorded in the same period in 2022. **Third-quarter** input cost inflation for **2023** eased to 6.5% compared to 15.8% in 2022 as can be seen on the right.

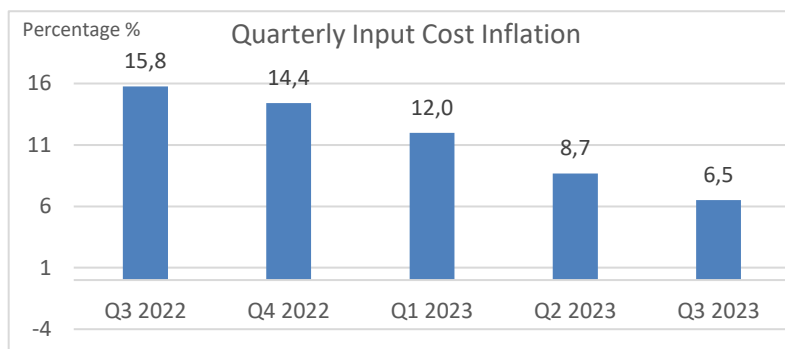
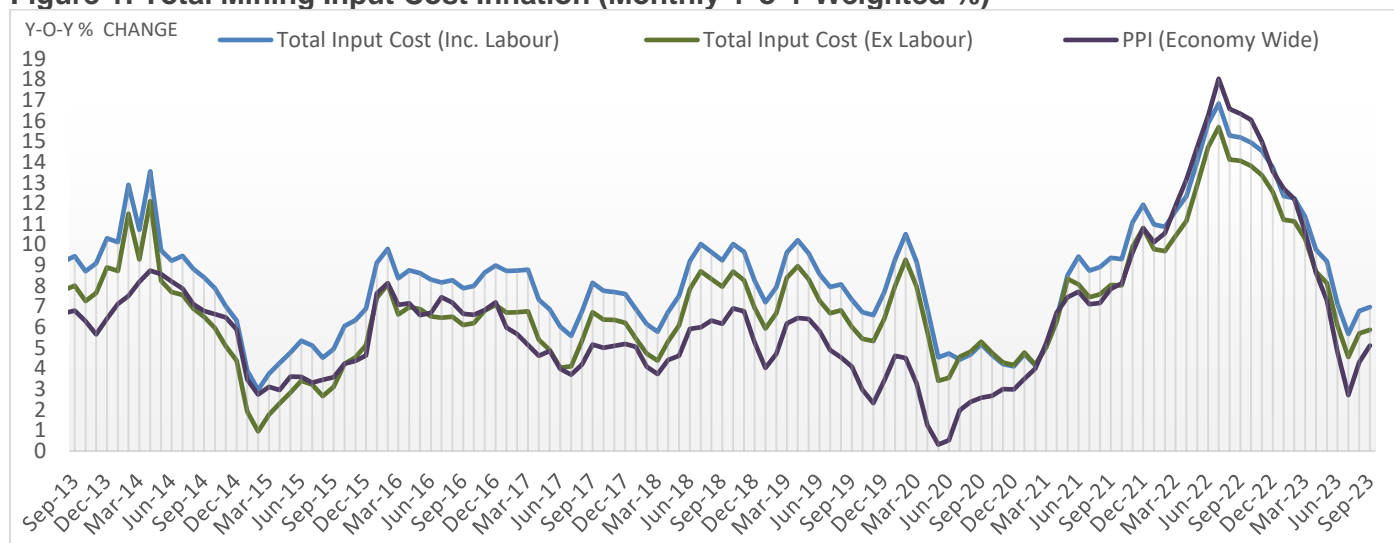


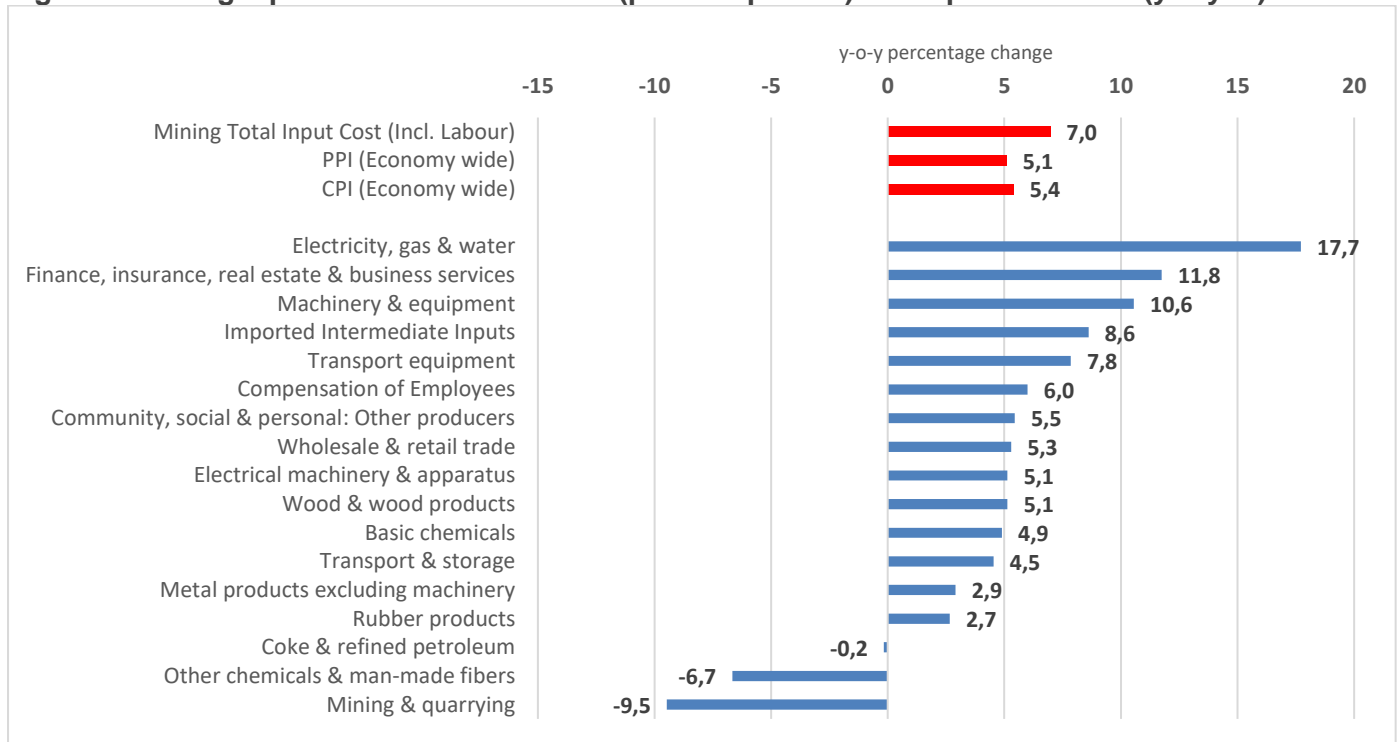
Figure 1: Total Mining Input Cost Inflation (Monthly Y-o-Y Weighted %)



Source: Statistics South Africa & Minerals Council

Figure 2 below illustrates the contributors to overall mining input cost inflation. We illustrate the total mining input cost inflation in September (which amounted to 7.0%) and the individual components that contributed to the headline figure. For comparison, we also show Consumer Price Inflation (5.4%) and Producer Price Inflation (5.1%) for September 2023.

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

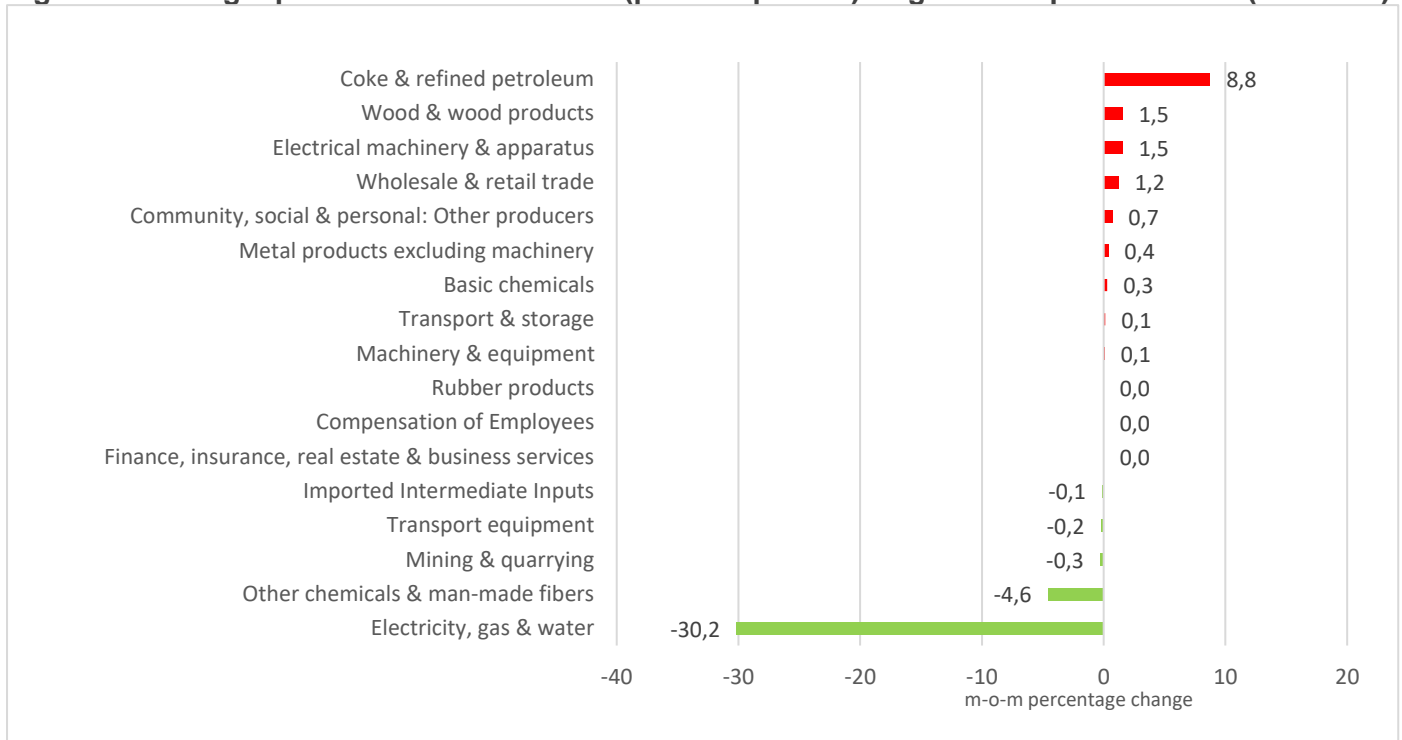


Source: Statistics South Africa & Minerals Council

The breakdown of the individual components that contributed to total mining input cost inflation, as shown above, clearly illustrates sustained high levels of inflation for *electricity and water* (17.7%, down from 18.7% in August), *finance, insurance, real estate and business services* (11.8%, unchanged from August), *machinery and equipment* inputs (10.6%, down from 14.2% in August), and *imported intermediate inputs* (8.6%, down from 11.1% in August).

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

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

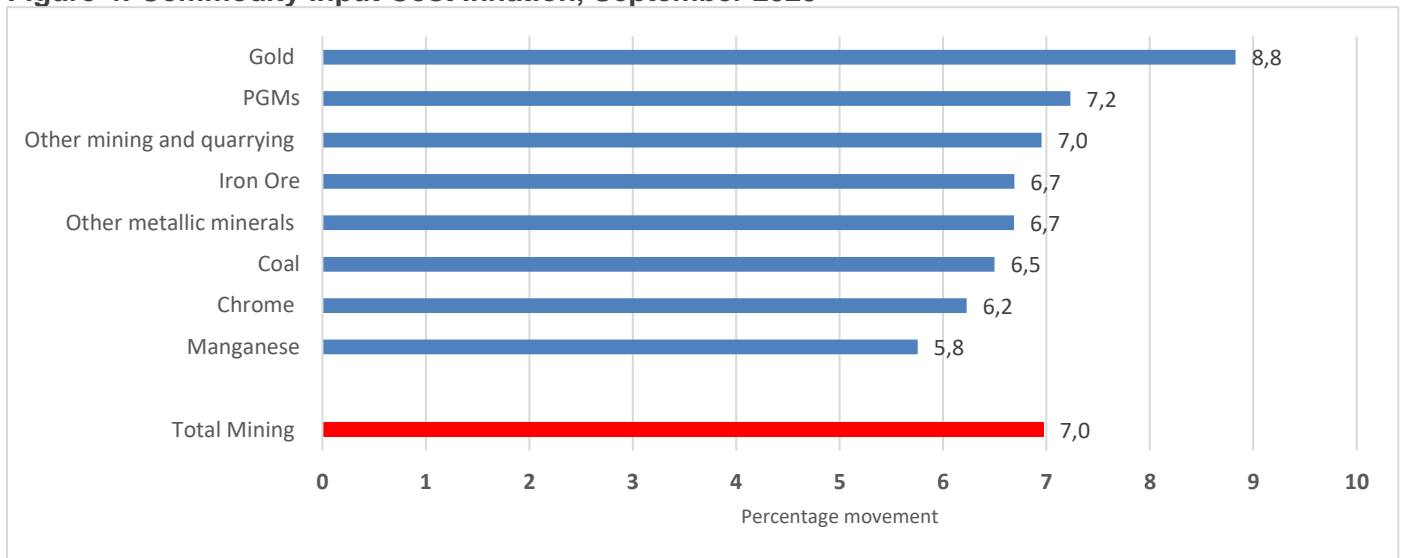


Source: Statistics South Africa & Minerals Council

We note that one of the main reasons for the increase in input cost inflation in September is due to the rise in crude oil, coal and diesel prices. The average **crude oil** price went up to \$92.2 a barrel in September, up from \$84.7 in August, South African coal prices increased to \$99.85 per tonne (from \$97.6 in August) while diesel prices increased to R23.29 a litre (up from R20.53). Furthermore, the significant month-on-month drop in electricity tariffs in September (a 30 per cent decline) can be attributed to the end of the winter tariff cycle. The winter tariffs are in effect from June to August. However, June and September are split months measured from mid-month to mid-month. The impact of winter tariffs is evident, with the split month's R/kWh increasing by 25-30% and the full winter months by around 50%.

Figure 4 below illustrates the average year-on-year inflationary input cost pressure per commodity for September 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, September 2023



Source: Statistics South Africa & Minerals Council

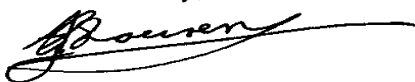
Gold saw the highest increases in input cost inflation for the third consecutive month followed by PGMs, other mining and quarrying and iron ore. Gold is particularly affected by electricity dependency, the cost of coke, refined petroleum and carbon. The manganese industry experienced a reprieve due to a decrease in prices for mining and quarrying inputs, while imported intermediate input prices remained relatively stable.

Conclusion:

Total mining input inflation for September 2023 amounted to 7.0%, year-on-year. This was well above the economy-wide PPI for final manufactured goods over the same period of 5.1% and continues to signal a return to long-run average levels for the industry at around 7 to 8%. The biggest component increases in total mining input inflation for September came from *electricity, gas and water* (up 17.7% Y-o-Y), *finance, insurance, real estate and business services* (11.8%, unchanged from August), *machinery and equipment* inputs (up 10.6% Y-o-Y), and *imported intermediate inputs* (up 8.6% Y-o-Y).

The gold and PGM industries are experiencing distinct cost pressures in terms of electricity and higher costs of coke and refined petroleum products. Overall, higher crude oil prices and refined petroleum derived products were the main culprits for the increased input cost inflation in September 2023 compared to a year earlier.

Yours sincerely,



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