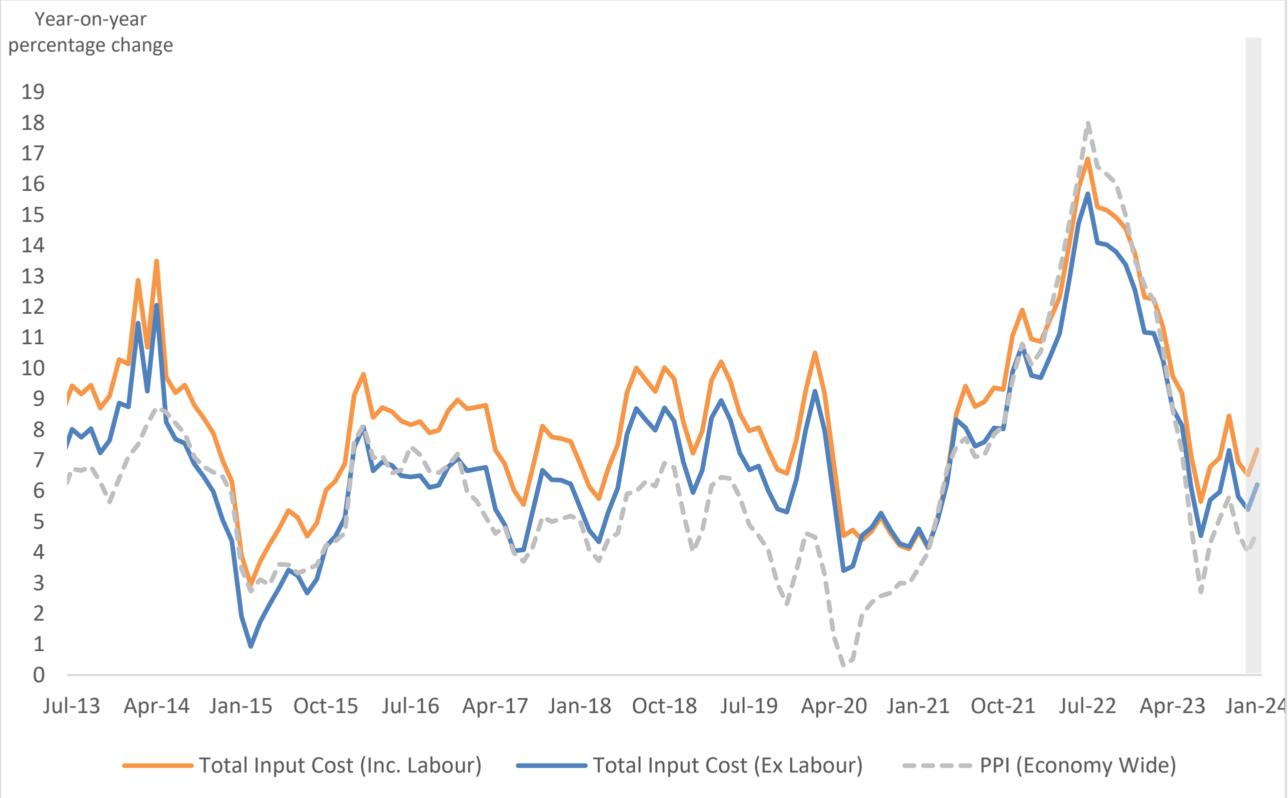
13 March 2024

Update: **Mining Input Cost Inflation – January 2024**

In **January** 2024, the Minerals Council's index of mining input costs increased by **7.3%** year-on-year (y-o-y), indicating a visible uptick compared to the previous month's rate of 6.5%. This upward move mirrors the acceleration in producer price inflation, which registered 4.7% y-o-y for January 2024. Figure 1 depicts the trajectory of mining input inflation.

Figure 1: Total Mining Input Cost Inflation

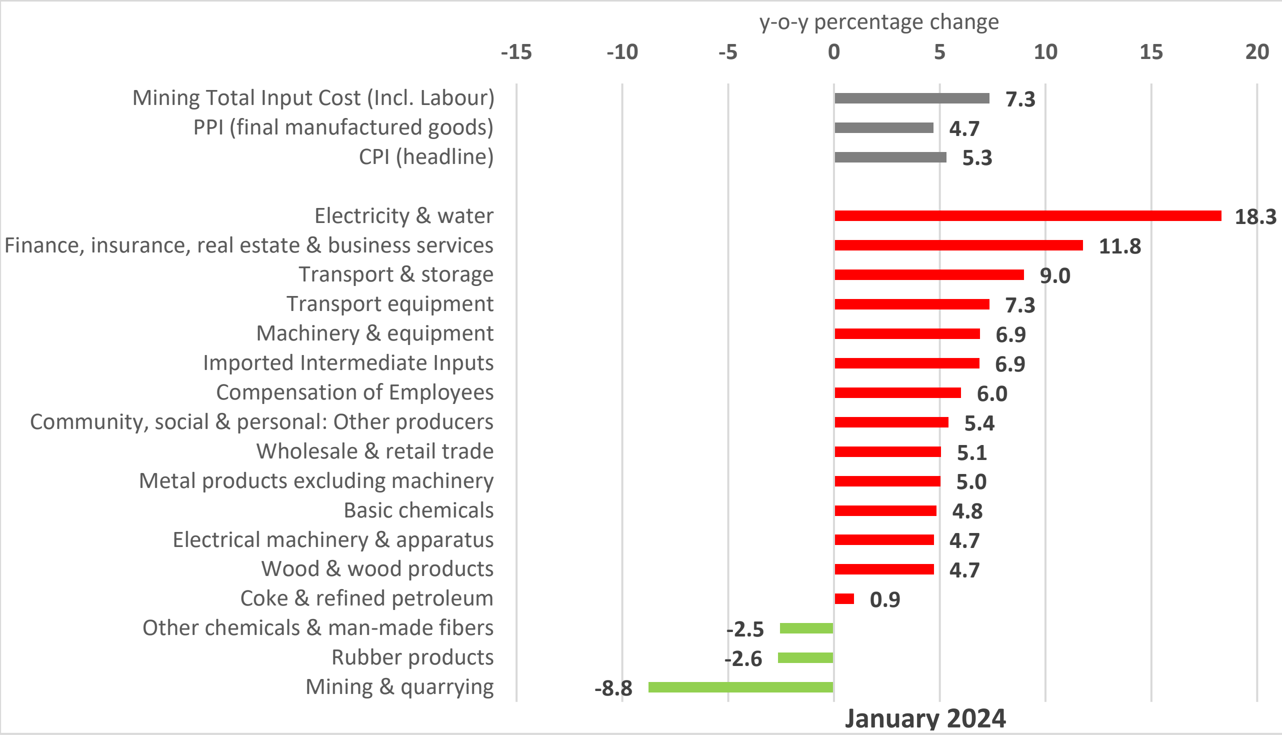


Source: Statistics SA & Minerals Council

Figure 2 below presents a breakdown of the contributors to overall mining input cost inflation in January 2024. This breakdown includes total mining input cost inflation for the month, along with the contributions of the underlying components. To provide context, we also compare these figures with consumer inflation (5.3% y-o-y) and producer price inflation (4.7% y-o-y) for January 2024.

The breakdown of the individual components contributing to total mining input cost inflation in January 2024 highlights sustained high levels of inflation for *electricity and water* (18.3% y-o-y), *finance, insurance, real estate, and business services* (11.8% y-o-y), *transport and storage* (9.0% y-o-y), and *transport equipment* (7.3% y-o-y).

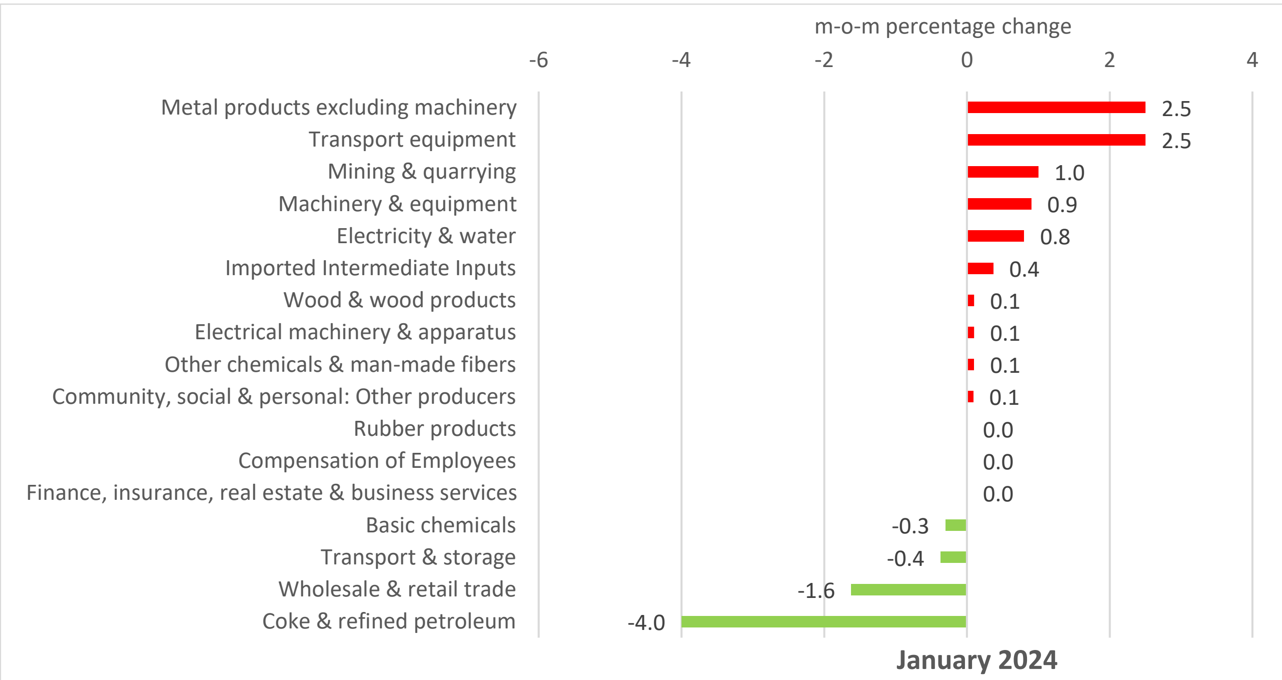
Figure 2: Annual change in key components of Mining Input Cost



Source: Statistics SA & Minerals Council

Electricity, transport expenses, and labour collectively accounted for around 50% of the total input costs in mining, inclusive of imported intermediate inputs. Three of these factors, namely electricity, transport, and imported intermediate inputs, experienced accelerated yearly increases, exerting pressure on the mining sector. When comparing the price changes on a month-on-month basis, i.e., from December 2023 to January 2024, we gain insight into those components experiencing price increases as opposed to price decreases over the short term.

Figure 3: Monthly Mining Input Cost changes



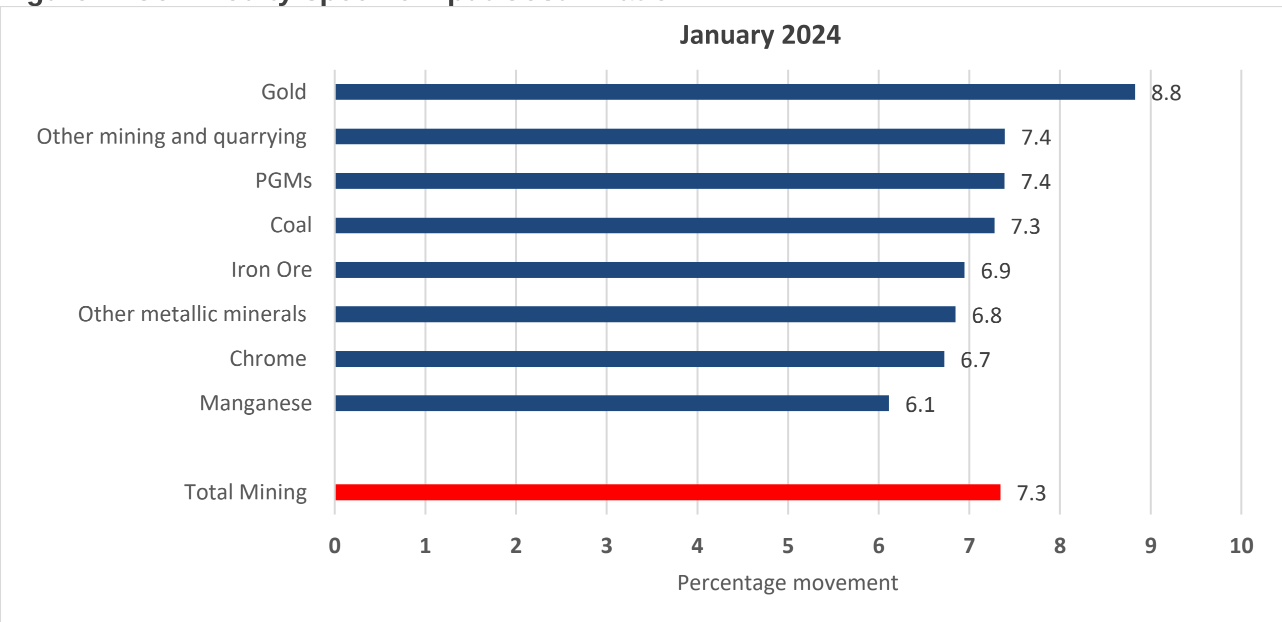
Source: Statistics SA & Minerals Council

One of the primary drivers behind the escalating input cost inflation in January was the surge in **metal product** prices, particularly in iron and steel, including rolled and flat steel products. While iron ore prices remained stable in January compared to December, other input costs for steel products increased. This includes a 10% (up from 5%) import tariff on flat-rolled steel since September 2023. The tariff hike is aimed at protecting local steel manufacturers from cheaper imports, but consumers of steel, including mines, now pay more for steel.

Furthermore, there was a notable monthly increase in mining input costs attributed to the elevated production expenses of **transport equipment** essential for mining operations. Despite the near-term upward pressure for **mining and quarrying** prices, there was still a trend of disinflation within this sector, albeit at a lower rate. Lastly, January witnessed a slight depreciation in the rand against our major trading partners' currencies, with the nominal effective exchange rate decreasing by 0.4% compared to December. This contributed to relatively higher costs for **imported intermediate inputs**, placing a disadvantage on mining companies reliant on these inputs for production.

Figure 4 below illustrates the year-on-year 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

The gold sector experienced the highest average increase in input cost inflation. After gold, the other mining and quarrying, PGM and coal sectors saw the fastest input cost rises.

Conclusion:

In January 2024, the mining industry saw an increase in input cost inflation, reaching 7.3% year-on-year, mirroring the move higher in producer price inflation. Rising metal product prices, driven by increased production costs and tariffs on imports month-on-month, fuelled inflationary pressures. Despite these challenges, the rate of increase moderated somewhat for mining and quarrying subcomponent, albeit at a slower rate, while a slight currency depreciation added to cost burdens for companies reliant on imported inputs. Among commodity subsectors, the gold sector experienced the highest average increase in input cost inflation, followed by other mining and quarrying, PGM, and the coal sector.

Yours sincerely,

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