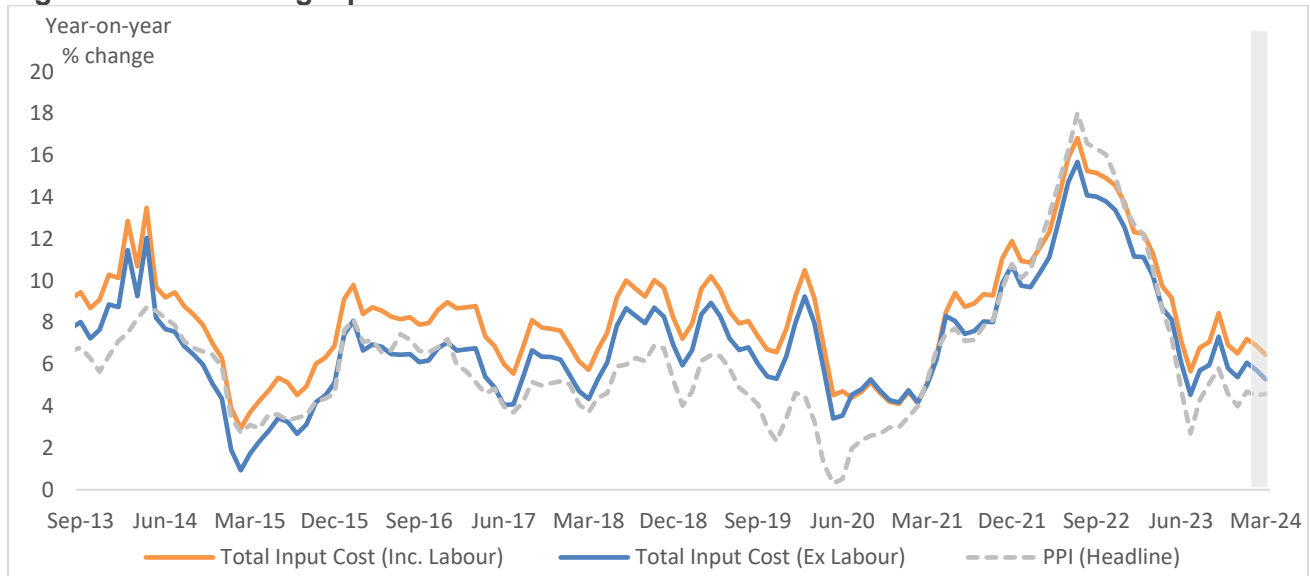


Update: **Mining Input Cost Inflation – March 2024**

In March 2024, the Minerals Council’s index of mining input costs increased by 6.5% year-on-year (y-o-y), showing a continued decline in the rate of increase from January’s 7.2%. Albeit from a more elevated level, the pace of moderation was slightly faster than the producer price index, which increased by 4.6% y-o-y in March 2024 compared to 4.7% in January. Figure 1 depicts the trajectory of mining input inflation.

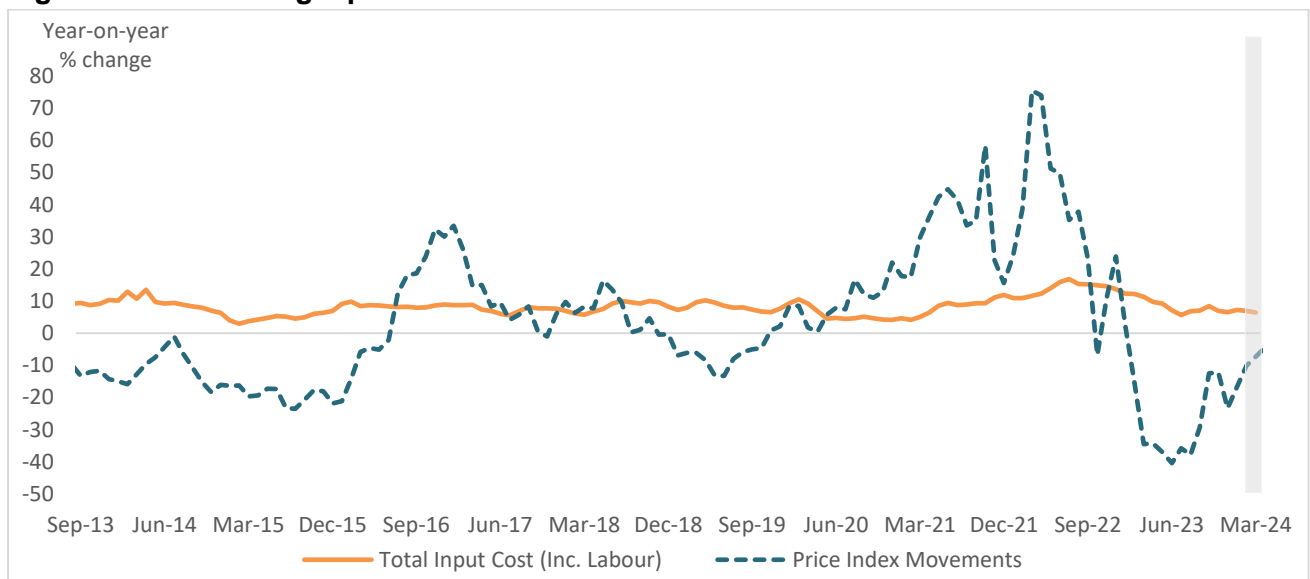
**Figure 1: Total Mining Input Cost Inflation**



Source: Statistics SA & Minerals Council

If we compare the y-o-y increases in commodity prices<sup>1</sup> to total mining input costs a story emerges. Figure 2 below illustrates this.

**Figure 2: Total Mining Input Cost vs Price Inflation**



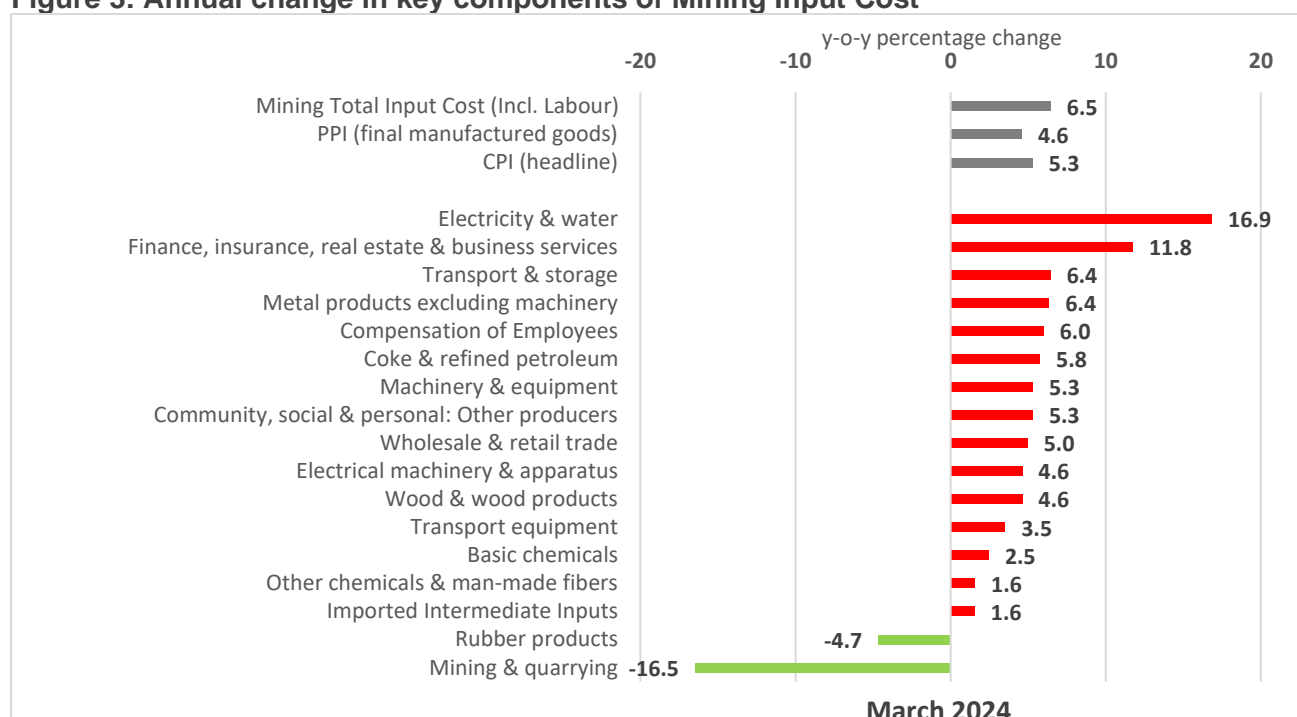
Source: Statistics SA, World Bank, SARB & Minerals Council

<sup>1</sup> The commodity price index is weighted based on export revenues and includes gold, platinum, coal, and iron ore as its primary components.

Increasing input costs, despite their decelerating growth rate, signify rising production expenses, while the negative and volatile price changes reflect decreasing and unpredictable revenue streams. This divergence, characterised by higher expenses and lower revenues, implies shrinking profit margins and waning profitability. This trend has pressured mining companies in some subsectors to maintain the profitability and employment levels of 2021/22, prompting them to restructure and reconfigure their workforce in particular.

A closer examination of the factors driving total mining input cost inflation is presented in Figure 3 below. For context, we also compare these figures with consumer inflation (5.3% y-o-y) and producer price inflation (4.6% y-o-y) for March 2024.

**Figure 3: Annual change in key components of Mining Input Cost**

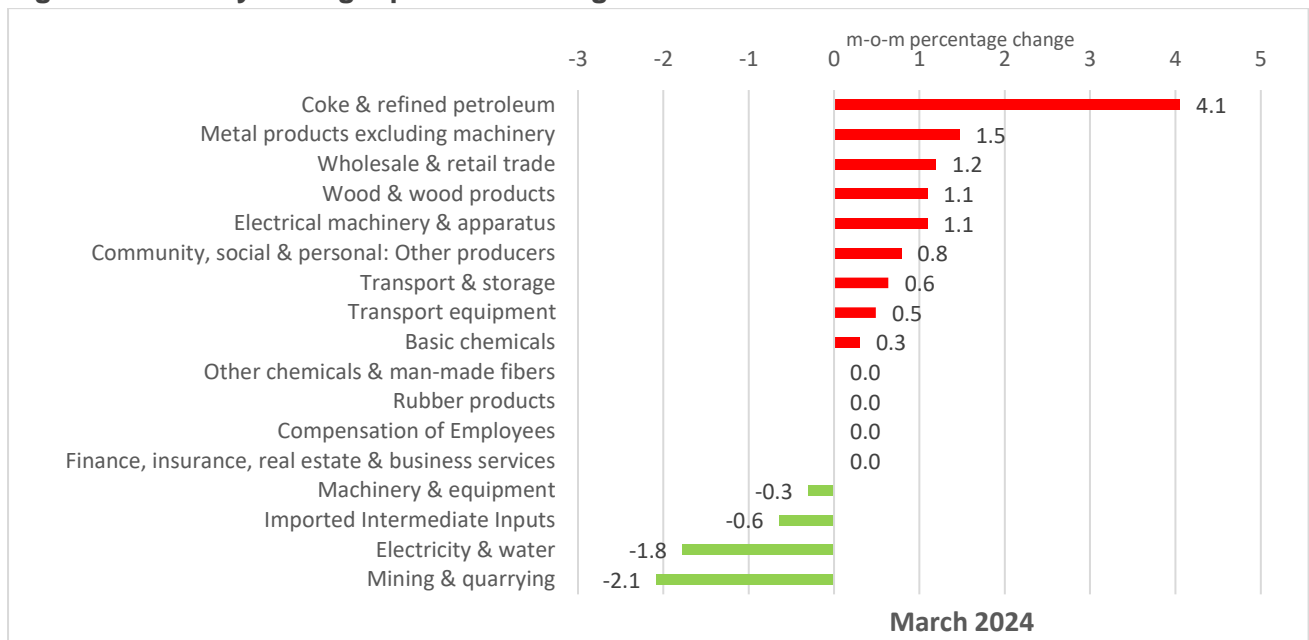


Source: Statistics SA & Minerals Council

The breakdown of individual components contributing to total mining input cost inflation in March 2024 reveals persistently high inflation rates for *electricity and water*, which increased by 16.9% y-o-y. These administered prices are exerting significant pressure on mining inputs. The costs for *finance, insurance, real estate, and business services* remained elevated at 11.8% y-o-y, reflecting the high cost of finance and capital as reflected in the prime lending rate in South Africa. Additionally, *transport and storage* costs rose by 6.4% y-o-y, matched by a 6.4% y-o-y increase in *metal products*.

Mining operations leverage various intermediate inputs, including other mined resources, for tasks such as facilitating extraction processes, showcasing the interconnectedness of different mining subsectors. Therefore, a decrease in the price of some mining intermediate inputs helped reduce the cost of overall *mining and quarrying* inputs over the past year. By comparing price changes from February 2024 to March 2024, we can identify which components have experienced short-term price increases and which have seen price decreases.

**Figure 4: Monthly Mining Input Cost Changes**

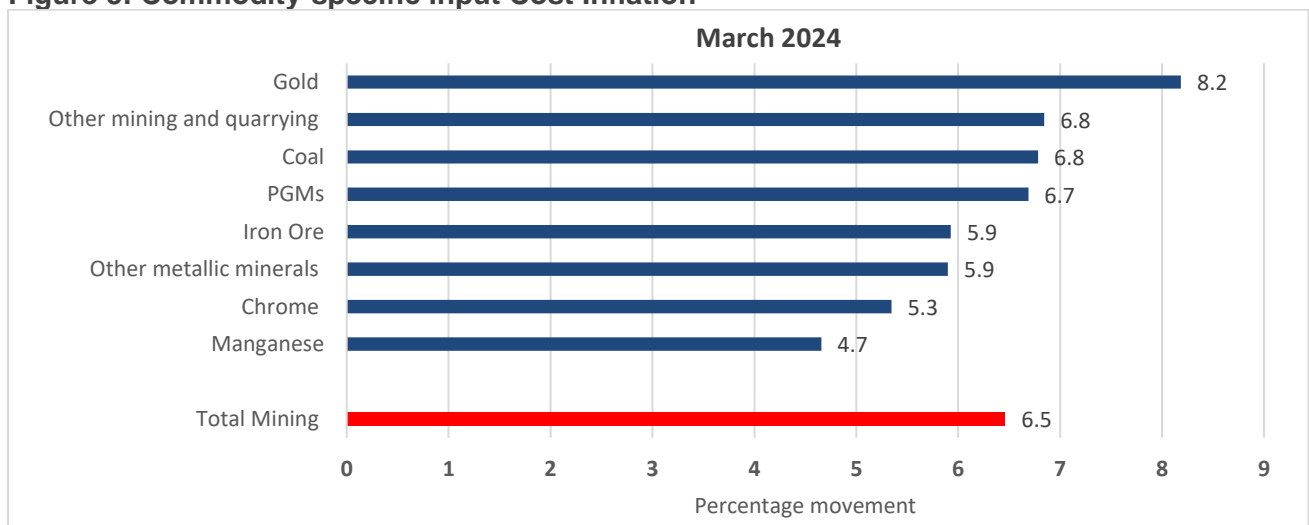


Source: Statistics SA & Minerals Council

One of the primary drivers behind the escalating input cost inflation in March was the surge in petrol prices, fuelled by rising Brent crude oil prices. The average price of a barrel of crude oil rose to \$83.55 in March, up from \$80.55 in February. Consequently, the price of 95 octane petrol increased to R25.12 per litre from R24.45 per litre in February, while the diesel price remained elevated at R22.61 per litre in March.

Figure 5 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 5: 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, coal and PGM sectors saw the fastest input cost rises.

## Conclusion:

In conclusion, the mining industry in March 2024 experienced a 6.5% y-o-y increase in input costs. Although this rise was lower than January's 7.2%, it still exceeded the producer price index's 4.6% y-o-y increase. The industry has been grappling with steadily rising input costs that have been outpacing headline inflation and is driven particularly by categories like electricity and water, which are administered prices and subsequently erode global competitiveness. This prolonged disparity between input costs and prices has pressured mining companies to restructure and optimise labour inputs to maintain profitability. The surge in petrol prices, driven by higher Brent crude oil costs, has further exacerbated the situation, highlighting the complexity and volatility of managing input costs in the mining sector. Ultimately, with certain sectors like gold experiencing the highest input cost inflation, there is a need for some mining companies to make strategic adjustments to handle these above-inflationary input cost increases effectively.

Yours sincerely,



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