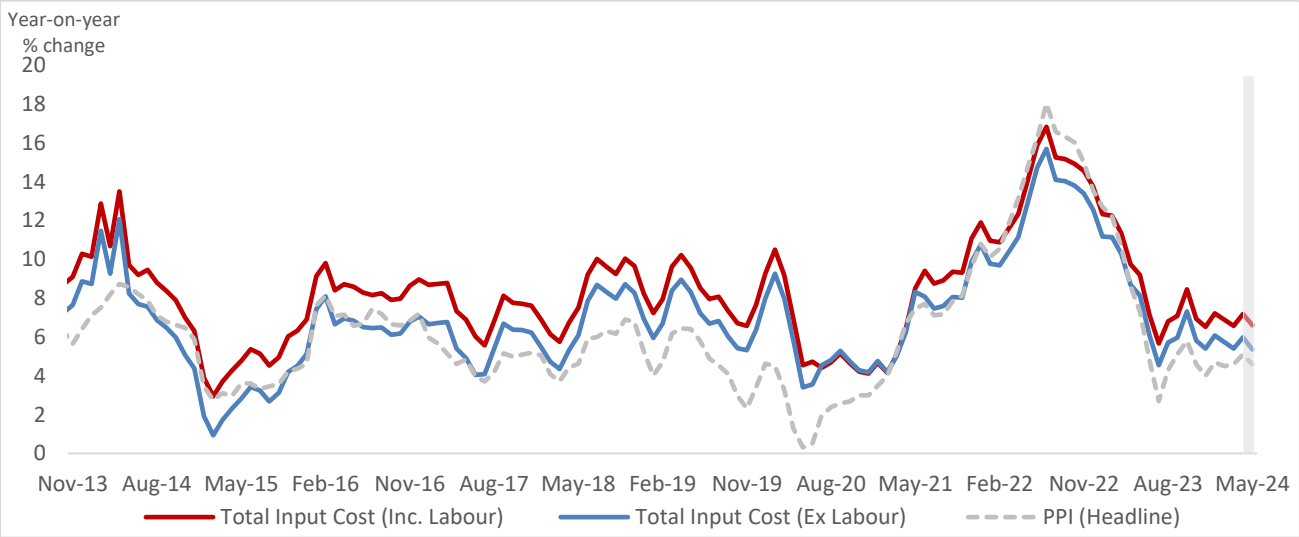
04 July 2024

MINERALS COUNCIL
SOUTH AFRICA

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

In May 2024, the Minerals Council's index of mining input costs rose by 6.6% year-over-year (y-o-y), marking a 0.6 percentage point decline from April. This decrease is a positive development, with May's figure falling below the Q1 average of 6.9%. Additionally, Stats SA's Producer Price Index (PPI) increased by 4.6% y-o-y in May 2024, down from 5.1% in April. Figure 1 depicts the trajectory of mining input inflation.

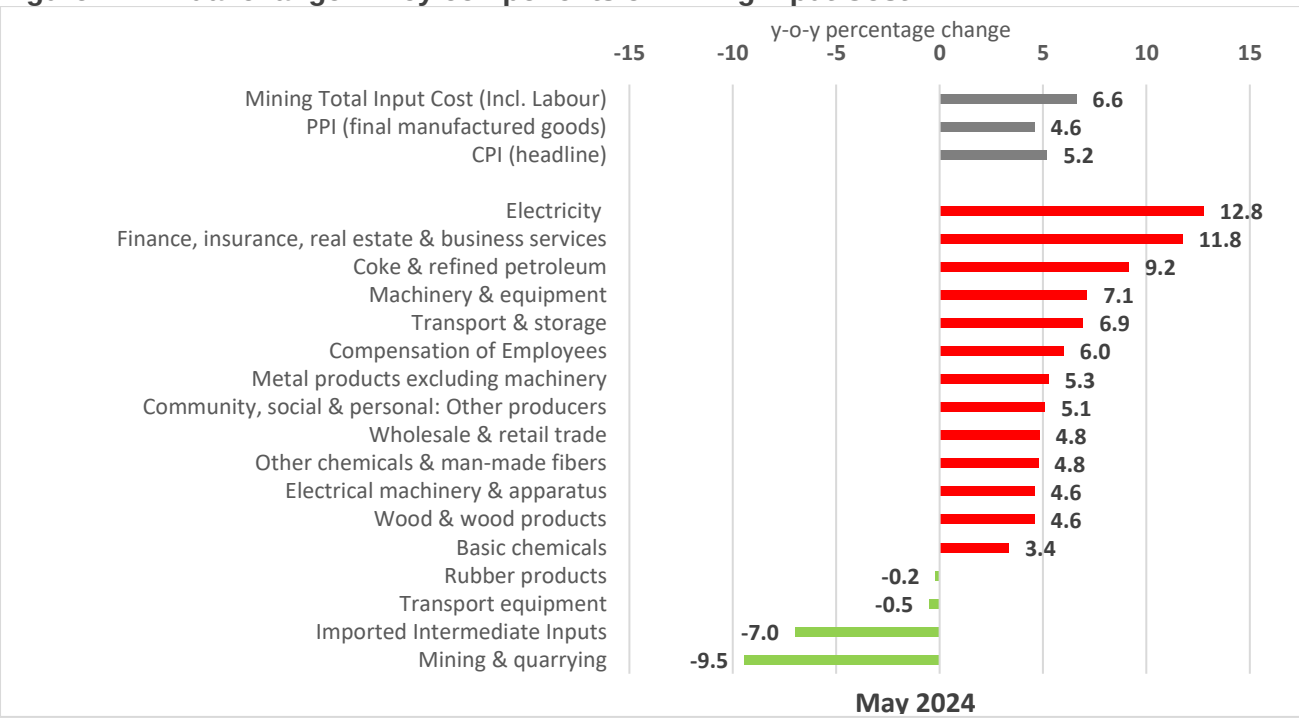
Figure 1: Total Mining Input Cost Inflation



Source: Statistics SA & Minerals Council

A closer examination of the factors driving total mining input cost inflation is presented in Figure 2 below. For context, we also compare these figures with consumer inflation (unchanged at 5.2% y-o-y) and producer price inflation for May 2024.

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



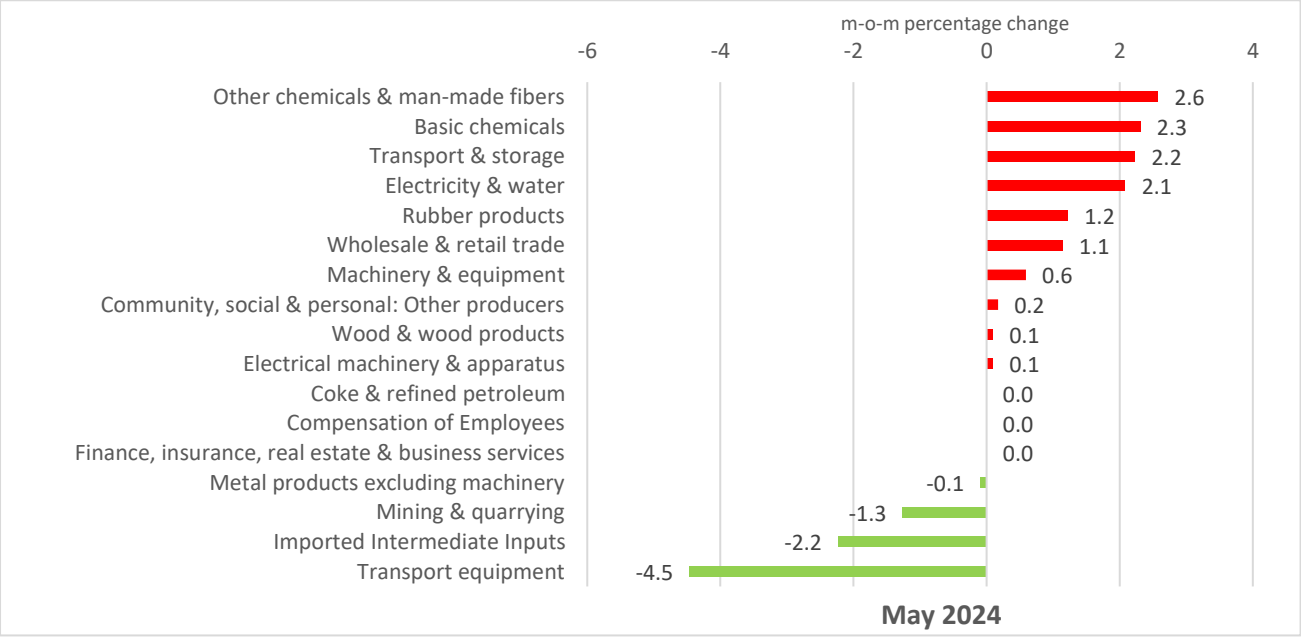
Source: Statistics SA & Minerals Council

The analysis of individual components contributing to total mining input cost inflation in May 2024 reveals persistently high inflation rates for *electricity*, which increased by 12.8% year-over-year (y-o-y). This rise fully reflects the National Energy Regulator of South Africa (NERSA) increase of 12.74% effective in April 2024, relating to the production, collection, and distribution of electricity by Eskom. Costs for *finance, insurance, real estate, and business services* remained elevated at 11.8% y-o-y, reflecting the increased cost of lending and trade financing.

Additionally, *coke and refined petroleum* costs rose by 9.2% y-o-y, driven primarily by an increase in Brent crude prices, which averaged $83.1 per barrel in May 2024 compared to $75.8 per barrel a year earlier. The increased costs of Brent crude translates to more expensive petrol, diesel, engine oils, etc., used extensively in mining. *Machinery and equipment* costs increased by 7.1% y-o-y. Conversely, various intermediate inputs, including other mined resources such as coal and metals used in extraction processes, decreased again y-o-y in May. This 9.5% decline in *mining and quarrying inputs* has helped reduce the overall input costs from this component over the past year. Furthermore, the strengthening of the nominal effective exchange rate by 7.0% y-o-y has reduced the costs of *imported intermediate inputs* for the sector.

By comparing price changes from April 2024 to May 2024, we can identify which components have experienced short-term price increases and which have seen price decreases.

Figure 3: Monthly Mining Input Cost Changes

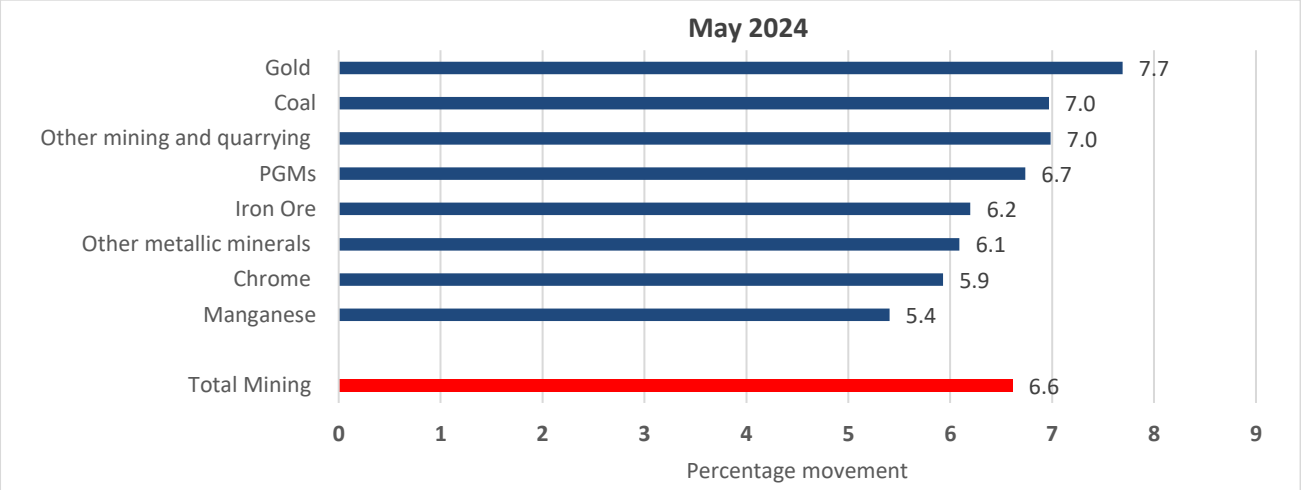


Source: Statistics SA & Minerals Council

One of the main factors driving input cost inflation in May is the 2.6% increase in prices *for other chemicals and man-made fibres*. This category includes mining chemicals, chemical catalysts, and prepared explosives used extensively in mining. Additionally, *basic chemicals* input prices rose by 2.3% compared to April 2024, driven particularly by higher ammonia nitrate and other fertiliser prices. Conversely, the price of *transport and storage* decreased by 4.5% m-o-m, reflecting lower road freight costs and an improved payload-income ratio for freight transportation in the mining sector.

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

In May, the gold sector experienced the highest average increase in input cost inflation for the fifth consecutive month. Following the gold sector, the coal, other mining and quarrying, and PGM (Platinum Group Metals) sectors saw the next fastest rises in input costs.

Conclusion:

May 2024 saw a 6.6% y-o-y rise in the Minerals Council's index of mining input costs, reflecting a 0.6 percentage point decrease from April. This positive trend aligns with the broader decline in the PPI, which fell to 4.6% y-o-y. Going forward, we expect electricity prices to continue exerting upward pressure on mining input costs, with further increases expected in mid-June and the start of July as winter tariffs and local municipal increases kick in.

Sector-specific analysis reveals that the gold sector continues to experience the highest input cost inflation, followed by coal, other mining and quarrying, and PGM sectors. Overall, while some inflationary pressures persist, particularly in energy and finance-related costs, the easing of other input costs and favourable exchange rate movements have contributed to a more balanced inflationary environment for the mining sector.

Yours sincerely,

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