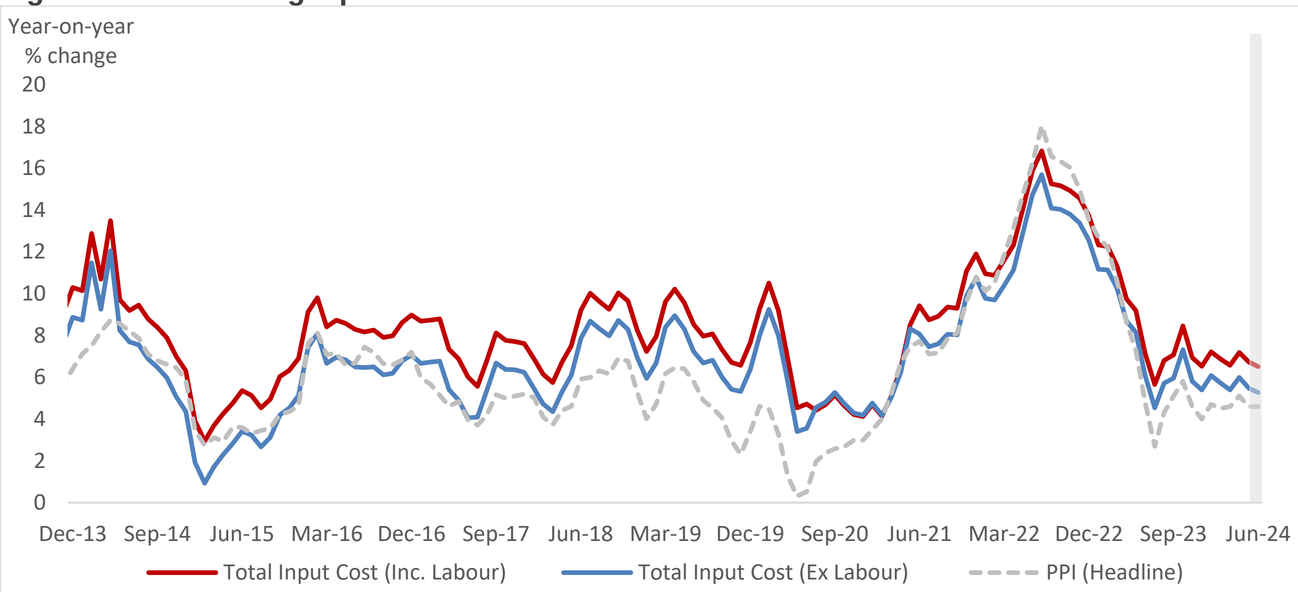
02 August 2024

MINERALS COUNCIL
SOUTH AFRICA

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

In June 2024, the Minerals Council's index of mining input costs rose by 6.5% year-over-year (y-o-y), down from 6.7%[1] in May. For the second quarter (Q2) of 2024, input cost inflation amounted to 6.8% y-o-y, down slightly from the 6.9% recorded in Q1 and significantly less than the 8.7% recorded a year earlier in Q2 2023. Additionally, Stats SA's Producer Price Index (PPI) increased by 4.6% y-o-y in June 2024, unchanged from May. Figure 1 depicts the trajectory of mining input inflation.

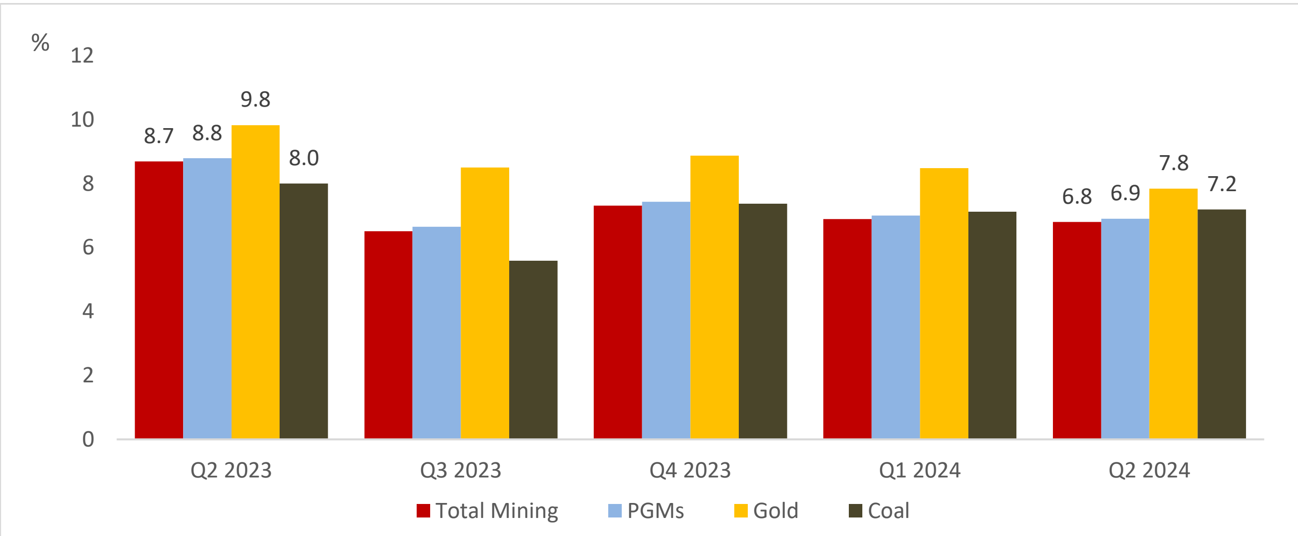
Figure 1: Total Mining Input Cost Inflation



Source: Statistics SA & Minerals Council

Compared to a year earlier, input costs moderated in Q2 of 2024 as can be seen below. Among the major commodities, gold experienced the highest input cost increase at 7.8% in Q2 2024, followed by coal at 7.2% and PGMs at 6.9%.

Figure 2: Changes in Quarterly Mining Input Cost

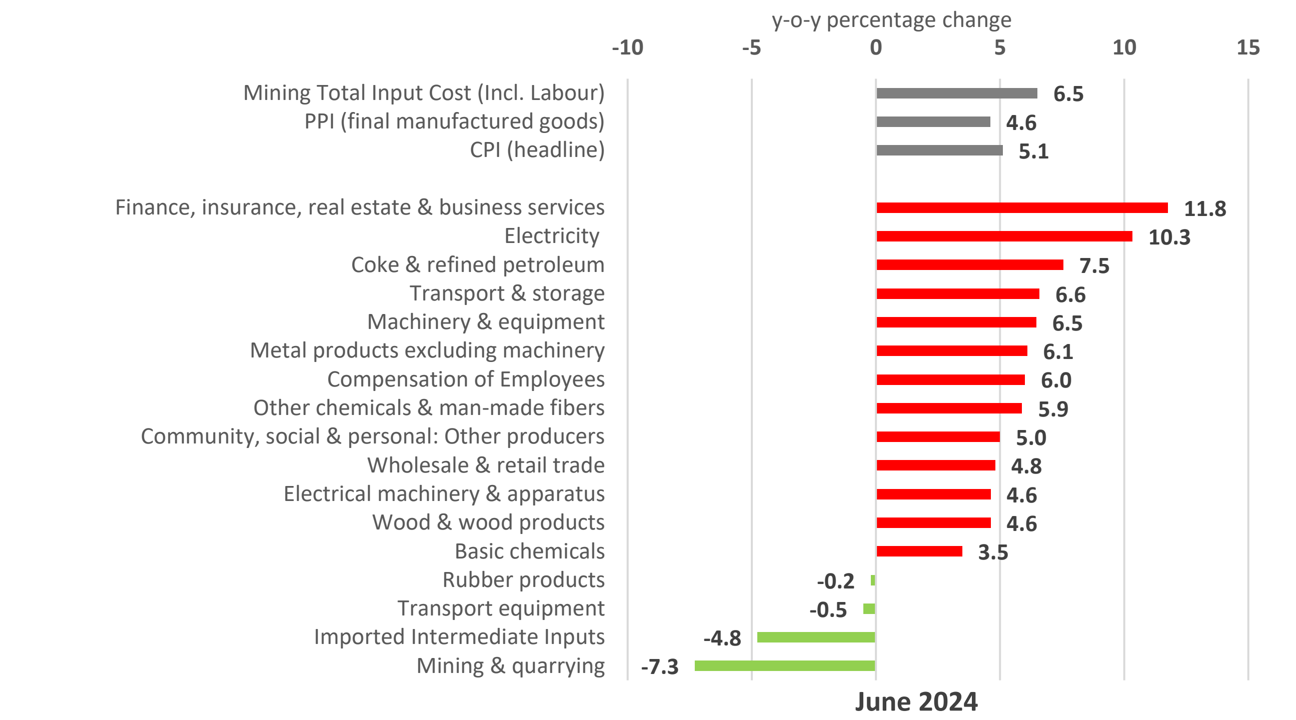


Source: Statistics SA & Minerals Council

[1] The input cost inflation previously reported for May 2023 was 6.6%. Upon revisions and data updates in this edition, this increased to 6.7%.

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 (at 5.1% y-o-y) and producer price inflation for June 2024.

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



Source: Statistics SA & Minerals Council

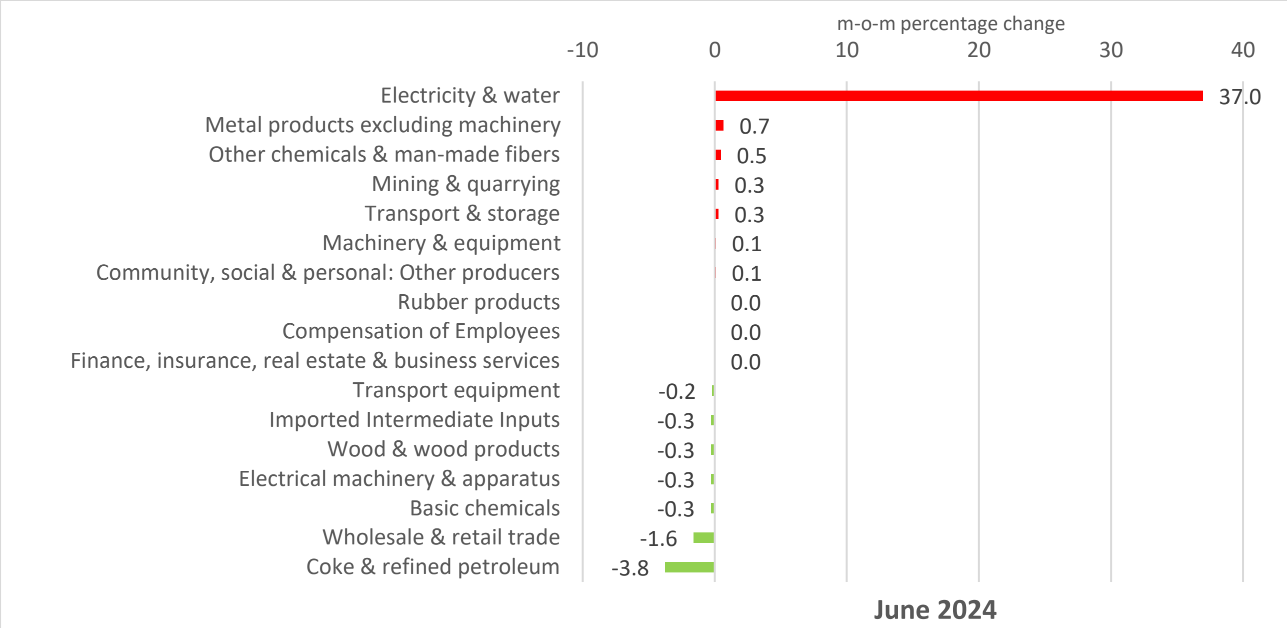
The analysis of individual components contributing to total mining input cost inflation in June 2024 shows persistently high inflation rates for *electricity*, which increased by 10.3% y-o-y. As an administered price, and given Eskom's assertion that tariffs should reflect generation costs, we do not expect this trend to end anytime soon. Without fundamental reforms to the electricity pricing mechanism or increased availability of alternative, cheaper sources of electricity on the national grid, electricity prices will continue to exert pressure on the mining industry. In contrast to electricity, while the costs for *finance, insurance, real estate, and business services* remained elevated at 11.8% y-o-y, the cost of lending and trade financing is expected to come down over the next 6 months.

Coke and refined petroleum costs rose by 7.5% y-o-y, driven primarily by Brent crude prices, which averaged $82.9 per barrel in June 2024 compared to $75.0 per barrel a year earlier. The increase in Brent crude prices over the past year led to higher costs for petrol, diesel, and engine oils, extensively used in mining operations. We also note that t*ransport and storage* costs increased by 6.6% y-o-y. Conversely, various intermediate inputs, including other mined resources such as coal and metals used in extraction and refining processes, continued to decrease y-o-y in June. A 7.3% decline in these intermediate *mining and quarrying* inputs helped reduce overall input costs from this component over the past year. South Africa has also benefited from an overall stronger rand exchange rate since the formation of the government of national unity following the May elections. This strengthening of the nominal effective exchange rate[2] by 4.8% y-o-y has reduced the costs of *imported intermediate inputs* for the sector.

[2] This measures the rand's movement against a basket of currencies from South Africa's major trading partners.

By comparing price changes from May 2024 to June 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

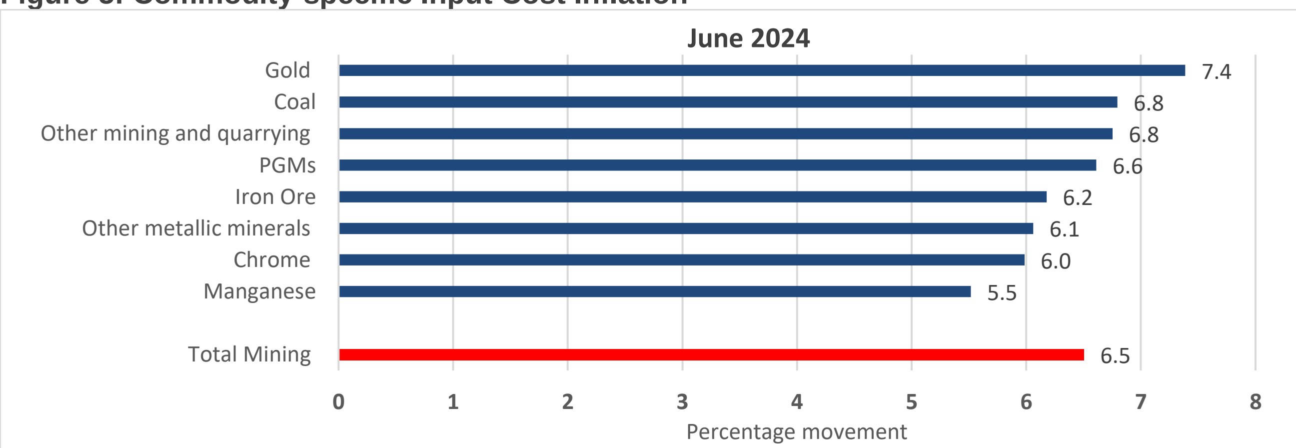


Source: Statistics SA & Minerals Council

Noteworthy is the significant month-on-month (m-o-m) increase in electricity prices. June marks the beginning of winter industry tariffs, which last until September. These tariffs, measured from mid-month in June to mid-month September, apply to bulk electricity users under the Eskom Mega Flex package. During this period, mines rarely reduce their electricity consumption, resulting in a 25-35% increase in costs. We also note that given the stronger performing rand dollar exchange rate and the steady Brent crude price over the past two months, there has been a 3.8% m-o-m decrease in the price of *coke and refined petroleum*.

Figure 5 below illustrates the y-o-y 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

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

Conclusion:

In June 2024, the Minerals Council's index of mining input costs rose by 6.5% y-o-y, a slight decrease from May's 6.7%. As expected, the implementation of winter tariffs in June increased electricity prices, putting upward pressure on mining input costs, a trend expected to continue until September. However, the availability of electricity, with more than 127 days without loadshedding, should bode well for deep-level mining, especially gold production.

Sector-specific analysis shows that the gold sector continues to experience the highest input cost inflation, followed by the coal, other mining and quarrying, and PGMs sectors. The improved performance of the rand exchange rate after the May election and the establishment of the government of national unity, along with stable Brent crude oil prices, are helping to lower import costs and petroleum expenses, providing some relief to the mining sector.

Yours sincerely,

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