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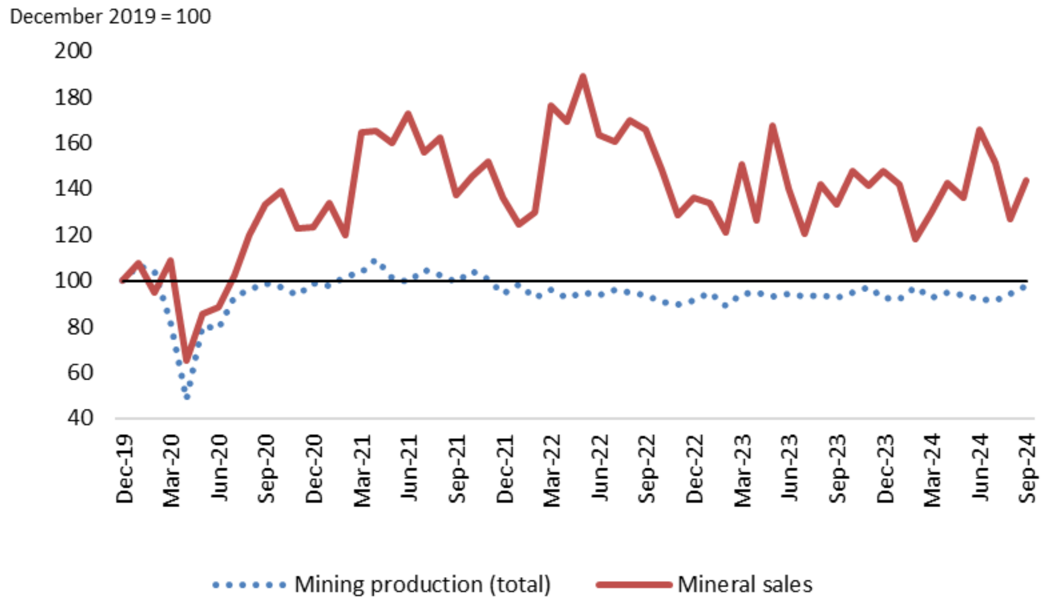
Mining production ends Q3 in positive territory

Following struggles in earlier months, mining production ended the third quarter on the front foot. Seasonally adjusted real mining production increased by 3.8% month-on-month (m-o-m) in September. This follows an increase of 3.3% (m-o-m) recorded in August. The biggest production increases were recorded in iron ore (+14.5% m-o-m), diamonds (+31.8%) and non-metallic minerals (+16.9%). The latter category includes limestone, sand, cements etc.

On a year-to-year (y-o-y) seasonally adjusted basis (i.e. comparing September 2024 to September 2023), total mining production increased by 4.7%. This follows an y-o-y increase of 0.5% in August 2024. The annual increase in production for September was broad based, with all but two subsectors posting gains. Contributing to the increase in total production were diamonds (+35.4% y-o-y), nickel (+21.8%), chrome (+17.3%), copper (+15.9%), manganese (+13.5%) and PGMs (+6.7%). Coal (-4.4% y-o-y) and gold (-3.7%) were the two commodities whose production declined. Coal production has been affected by the sustained Transnet port and rail inefficiencies. Coal prices have remained virtually flat since January 2024 at around $105/t. As for the gold price, it is up by 34% compared to September 2023 where it was $1 916/oz compared to $2 571/oz in September 2024.

Figure 1: Mining production and sales up in September



Source: Stats SA, Minerals Council

Figure 1 presents the performance of real mining production and nominal sales. While total mining production remains lower than pre-COVID levels, mainly because of declining gold

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production, sales earnings continue to perform well. It is importance to note that if gold is excluded, total mining production has fared better. Also worth noting is that the sales earning data performance is based on actual (nominal) data. It is not in real terms, which might tend to overstate actual performance because it has not been deflated to take into account cost increases in the mining sector. The sales number is a function of the volume of production and commodity prices. Input cost inflation in the mining sector is higher than in sectors such as agriculture and manufacturing.

Year-to-date (YTD) real mining production is marginally higher (+0.7%) in the first nine months of 2024 compared to the same period last year. Expectations are that total mining production in 2024 will increase by 0.5% to 1%.

Besides the production numbers for September, Stats SA released updated weightings for the major subsectors of mining. The latest weightings were based on the performance of the individual subsectors between 2019 and 2021. The previous weightings were based on 2018 to 2020 data. The composition of mining production continues to undergo a shift with the PGMs increasing its share in mining production from 26% to 30.2% (see Table 1). The share of coal has declined from 25.7% to 21.8%.

Table 1: Contribution per commodity to mining production (weights, %)

	2018 - 2020	**2019 - 2021**
PGMs	26,05	30,16
Coal	25,69	21,75
Iron ore	12,99	15,04
Gold	14,57	13,73
Manganese ore	6,29	5,69
Chromium ore	3,55	3,83
Building materials	3,15	2,91
Other metallic minerals	2,48	2,41
Diamonds	2,73	2,16
Nickel	1,11	1,06
Copper	0,66	0,69
Other non-metallic minerals	0,73	0,57
Total	**100**	**100**

Source: Statistics South Africa

Bottom line: After contracting in Q1 and Q2 2024 and subtracting from overall GDP, real mining production increased by 1% in the third quarter (relative to Q2). As with manufacturing, this means that mining will support GDP in Q3 (figures released in early-December). Looking ahead to 2025, Donald Trump's re-election as US President should ensure that the world's largest economy is more inward-looking than the Biden administration. While early days, this could have adverse implications for global trade and GDP growth. As for the individual commodities, the following should be noted:

- Domestic **gold** production is on a structural decline. Intermediate input costs are a major concern including that electricity costs continue to increase by more than domestic and global consumer inflation. Labour cost increases continue to be a challenge as wage settlements are typically above CPI inflation. As for the gold price, in the short- to medium term it is expected to remain buoyant.

- **PGMs** production seems likely to stabilise as the move to battery electric vehicles is likely to slow down on account of Trump winning the presidency in the US.
- **Coal**. The sector is faced by diverging trends. On the one hand, improved Eskom plant performance should boost the demand for coal. However, rail and port problems continue to hamper exports, especially at current prices that make trucking coal less viable.
- **Iron ore**. In the medium-term, Trump's re-election is set to negatively affect China's exports of manufactured goods. Iron ore is an input into steel manufacturing and most of China's goods exports use steel as an input. This might affect South Africa's iron ore exports to China, as well as other minerals such as chrome and manganese that feed into the Chinese stainless-steel sector

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