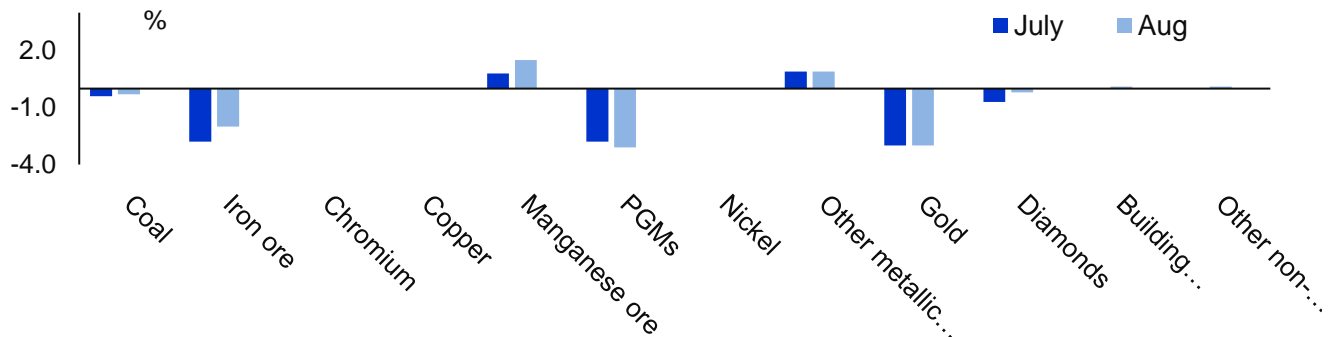




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Figure 1: Contributions to mining production growth



Source: Stats SA, Investec

- Mining output fell by a further -5.9% y/y in August, following July's -8.2% y/y (revised) contraction. The outcome was slightly ahead of consensus expectations of a -6.9% y/y decline (Bloomberg).
- A decrease in production of PGMs, gold and iron ore, which together detracted -8.1% points from the topline reading, on the back of contractions of -12.9% y/y, -17.4% y/y and -15.2% y/y respectively were largely responsible for the annual decline in production.
- Demand for iron ore, an essential input into steel production continues to be afflicted by the deteriorating global environment. Specifically, the IMF recently downgraded its global growth projection to 2.7% for 2023, which is "0.2 percentage points lower than the July forecast—with a 25 percent probability that it could fall below 2 percent". Indeed, the JP Morgan Global Manufacturing PMI slid below 50.0 in September, with a further decline in output and new orders logged. "Barring the pandemic lockdown months in the first half of 2020, the latest decline was the steepest since 2012", according to S&P Global.
- Moreover, continued monetary tightening by the Fed to contain inflation has boosted the greenback and concomitantly weighed on precious metals. Specifically, the gold price is down markedly from levels attained earlier on in the year when it reached over \$2000/oz (March 2022).
- Notwithstanding concerns over a precarious global outlook, domestically, the mining industry continues to face additional challenges. Persistent load shedding is a key impediment for the energy intensive mining sector. Additionally, logistical constraints continue to weigh heavily on industry participants.
- Declining productivity, vandalism and inadequate maintenance of infrastructure, "onerous government procurement rules" and in the case of railroads "idled locomotives bought in a corrupt transaction", continue to impede operating conditions and severely impact export potential.
- The "opportunity cost", for coal exporters is substantial, according to the Minerals Council South Africa. "At 2021 prices, industry lost R16 billion in export earnings (delivered tonnages are measured against target)."
- A decrease in onerous red tape, provision of stable electricity supply, improving policy transparency and certainty and tackling the significant crime situation in the country are some of the key challenges that need to be resolved to boost confidence and drive sustainable investment.

Figure 2: Key growth rates in the volume of manufacturing production

	July 2022	August 2022
Year on year %	-8.2	-5.9
Month on month %, seasonally adjusted	3.1	0.0
3-month %, seasonally adjusted	0.1	0.6

Source: Stats SA



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