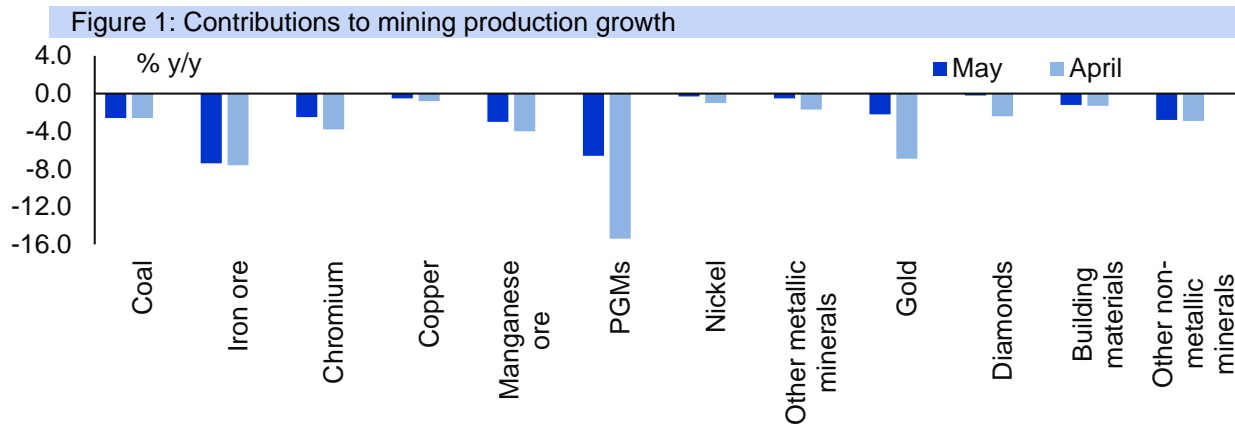




## Mining update: Mining production fell by a further -29.8% y/y in May, dragged down largely by PGMs and iron ore

14<sup>th</sup> July 2020



Source: Stats SA, Investec

- Mining production sank by a further 29.8% y/y in May, following April's unprecedented 50.3% y/y (revised) plunge. Restrictions on production (although to a notably lesser degree than April), global growth concerns, together with supply chain disruptions and subdued domestic demand continued to weigh on mining activity in May. While threats to the global recovery are seen to be receding, risks remain, particularly a tightening of lockdown restrictions on further waves of Covid-19 infections.
- The decline in production in May was broad based with all minerals and mineral groups experiencing some level of contraction. The largest negative contributors to May's headline outcome were however, iron ore and PGMs. The production of iron ore tumbled by a further 66.3% y/y, slicing 7.4% off May's topline outcome, as the global trade and growth fallout from Covid-19 led to a sharp fall in industrial demand. Similarly, PGM production fell by a further 27.3% y/y in May, following its marked 65.4% y/y dive in April and based on its large 23.66% weighting in the index, detracted 6.6% from May's reading. The automotive segment worldwide was particularly hard hit by the associated Covid-19 lockdown restrictions, weighing on this mineral group.
- Q1.20 saw mining activity fall by a marked 21.5% on a quarter on quarter seasonally adjusted annualised (qqsa) basis, weakening the overall headline GDP reading by 1.7%. Based on April and May's readings, we are likely to see a further pronounced slump in Q2.20's mining production outcome, detracting once again from the quarter's GDP result, which we forecast at around -48.2% qqsa.
- Even before the pandemic wreaked havoc on economies globally, our domestic mining industry faced a myriad of structural challenges including electricity supply constraints and labour market rigidities. Indeed, in real GDP terms the sector is smaller than it was in 1994. "While we have seen improvements in the industry's policy and investment attractiveness rankings under the leadership of Minister Mantashe, there are significant further reforms needed to enable the sector to achieve its true economic and transformational potential" according to the Minerals Council SA.

Figure 2: Mining production volumes

	Apr. 2020	May 2020
Year on year %	-50.3	-29.8
Month on month %, seasonally adjusted	-36.8	44.0
3-month %, seasonally adjusted	-22.9	-31.3

4 Source: Stats SA, Investec

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