



TBCSA
TOURISM BUSINESS INDEX

2017 HALF-YEAR REVIEW & OUTLOOK

EXECUTIVE SUMMARY



TOURISM
BUSINESS INDEX

Mainstreaming Travel and Tourism in the South African Economy

Executive summary

In South Africa, the travel and tourism sector continues to play an important role in the South African economy. In 2016, the sector contributed ZAR402.2bn (9.3%) to total GDP and is forecast to contribute 11.5% of GDP in 2027. In addition, the total contribution of the sector to employment in 2016 (includes jobs indirectly supported by travel and tourism) was 9.8% of total employment.

The quarterly TBCSA Tourism Business Index (TBI) is an initiative of the Tourism Business Council (TBCSA) and is compiled by Grant Thornton.

The index comprises of two sub-indices. The first sub-index called "Accommodation" includes all types of tourism accommodation. The second sub-index called "Other Tourism Businesses" comprises of all travel and tourism businesses excluding accommodation establishments.

Where an index score of 100 is considered as the normal level of acceptable business performance, **overall the South African travel and tourism industry experienced lower than normal business performance in the first six (6) months of 2017, recording an index of 82.7.**

Looking ahead, anticipated business performance for the next 6 months is slightly less than the current performance at 80.4. This shows a pessimistic expectation of worse than normal (index of 100) business performance levels.

The Accommodation sector saw business performance for the first half of 2017 experience below normal levels at 79,1. This is notably lower than the index of 89,3 that was anticipated. Going into the second half of the year, the Accommodation sector forecasts that business performance will reduce to further lower levels with a worse than normal performance of 66.1 anticipated. When scrutinised, Backpackers, Hotel Groups and Independent Hotels all expect low business performance for the second half of the year.

The Other Tourism Businesses segment recorded worse than normal business performance at 85,5. This is lower than the level that was expected of 101.1 for Q1 2017. Looking ahead, a forecast index of 91.4 is anticipated for the next half of 2017 reflecting a slightly more optimistic outlook for the segment.

FACTORS AFFECTING BUSINESS

With regard to the performance of the Travel and Tourism industry, the TBI considers both positive and negative factors which possibly have an impact on business performance:



NEGATIVE FACTORS AFFECTING BUSINESS

The greatest contributing factors negatively affecting business conditions in the Accommodation sector were insufficient overseas leisure demand, insufficient domestic business demand and increases in competitive supply.

Other negative contributing factors for the Accommodation sector include:

- The downturn in the economy
- Continued competition and increase in supply from AirBnB establishments
- Increase in rates and taxes
- Continued water restrictions

In the Other Tourism Businesses segment, Competitor market behaviour (52% of segment respondents) was the greatest negative contributing factor to poor business performance in the first half of the year. Other factors included:

- Cost of inputs
- Insufficient domestic business demand
- Shortage of skilled staff

POSITIVE FACTORS AFFECTING BUSINESS

A weak Rand exchange rate was cited by 41% of Accommodation segment respondents as a positive contributing factor to business performance in the first half of 2017. This was followed by strong domestic leisure demand and strong overseas leisure demand.

In the Other Tourism Businesses segment, 48% of respondents cited Strong overseas leisure demand as a positive contributing factor to business. This was followed by Strong domestic leisure demand and a Weak Rand exchange rate.

EXPECTATIONS FOR REMAINDER OF 2017

NEGATIVE EXPECTATIONS FOR NEXT ½ OF 2017

The Accommodation Sector expects that cost of inputs (47%) will be the main negative contributing factor to business performance for the next half of the year. This is followed by cost of labour, insufficient domestic business demand, continued political instability and popularity of AirBnB establishments.

Also, very specific comments included damage done by the Knysna fires and length of time to rebuild accommodation establishments.

For the Other Tourism Businesses segment, 56% of respondents expect that insufficient overseas leisure demand will be a main negative contributing factor to business performance for the next half of 2017. This is followed by insufficient domestic leisure demand and the cost of inputs.

POSITIVE EXPECTATIONS FOR NEXT ½ OF 2017

For the remainder of 2017, 39% of respondents in the Accommodation segment expect that a weak Rand exchange rate (39%) will have a positive impact on business performance.

Similarly, 35% of Other Tourism Businesses also expect a weak Rand exchange rate to positively impact on business performance for the next half of 2017.

Additional positive contributing factors that will positively affect the Business situation in 2017 include:

- Weakening Rand making the destination more affordable
- Increase in domestic leisure demand
- More demand through conferences and events in the region

To note, very specific comments included the transfer of supply due to Knysna fires.

In terms of employment, 95.5% of respondents in the Accommodation sector expect employment levels to remain unchanged for the remainder of 2017. As for the Other Tourism Businesses segment, 16.0% of segment respondents expect to increase employment levels in 2017, whilst 79.1% expect them to remain unchanged.

In terms of capacity expansion for the remainder of the year, 94.9% of respondents in the Accommodation sector and 61.7% in the Other Tourism Businesses segment stated that capacity is expected to remain the same.

WHEN COMPARED WITH OTHER INDICES

The TBI results reflect a similar outlook to the quarterly RMB/BER Confidence Index and the SACCI Business Confidence Index. After increases in Business Confidence in Q1 of 2017, the RMB/BER fell to 29 points (50 is normal) in Q2 as businesses indicated worse than normal performance. The SACCI BCI shows a slight decline in the quarterly average (from 95.7 to 94.3) in Q2 of 2017, also reflecting low business performance levels but not showing the types of decline that the RMB and TBI are indicating.

CONCLUSION

When looking at the sectors individually, business performance in the Accommodation Sector was well below normal levels with an index of 79,1 which was lower than the 85,5 index recorded by Other Tourism Businesses over the last 6 months.

Going forward, both sectors anticipate business performance for the next 6 months to remain lower than normal with an anticipated index of 66,1 recorded by the Accommodation Sector and 91,4 recorded by the Other Tourism Businesses Sector. The Accommodation Sector is notably more pessimistic going forward, which could be attributed to insufficient overseas and domestic leisure demand anticipated for the remaining half of the year.

ABOUT THE TBCSA TOURISM BUSINESS INDEX

The TBCSA Tourism Business Index provides individual travel and tourism businesses with regular, up-to-date information on the performance of tourism businesses, including the outlook for performance.

The information is also designed to help individual businesses and policy/strategy makers understand the current tourism-operating environment.

The overall tourism index includes accommodation operators and responses from tour operators, coach operators, vehicle rental companies, airlines, travel agents, retail outlets, forex traders, conference venues and attractions. Two sub-indices are produced; "Accommodation" and "Other Tourism Businesses."

Sign up to participate in the quarterly survey and receive the TBI reports here: www.tbcsa.travel/tbi