



**FNB**  
First National Bank



Tourism Business Council of South Africa  
*one voice for tourism*



Grant Thornton

# FNB TBCSA Tourism Business Index

Compiled by Grant Thornton Strategic Solutions

## FNB TBCSA Tourism Business Index

### Introduction

The Tourism Business Index (“**TBI**”) is an initiative of the Tourism Business Council of South Africa. It is sponsored by First National Bank, and is compiled by Grant Thornton.

The TBI provides an indication of the current and likely future performance of the various businesses operating within the Tourism Sector in South Africa. It profiles the industry and positions it as an important component of the South African economy.

The index is produced quarterly, however for the first two editions; the TBI was still in the piloting phase.

The first official edition of the TBI was released on the 18<sup>th</sup> of January 2011.

For this second edition of the TBI, the accommodation sector and non-accommodation operators have an adequate sample size, enabling two sub-indices to be produced. The overall tourism index includes accommodation operators and responses from airlines, tour operators, coach operators, vehicle rental companies, travel agents, tourism retailers, foreign exchange providers, conference centres and attractions.

The responses from the airline, scheduled coach operators and vehicle rental companies are regrettably still too few to allow for the development of a tourism transport sub-index. The intention is to expand on the number of responses within this sector so that a meaningful tourism Transport sub-index can be developed in the future.

The current sample structure has changed slightly due to the varying response rate and new respondents, and therefore the comparative results of the TBI should still be treated as preliminary.

The TBCSA would like to encourage businesses in tourism and particularly in these sectors to participate in the TBI survey.

### What is a Business Index?

The purpose of the TBI is to provide individual tourism businesses with regular, up-to-date information on the performance of tourism businesses, including the outlook for performance over the next three months. It therefore tracks actual recent business performance in the sector and is an indicator of prospects for short-term future performance.

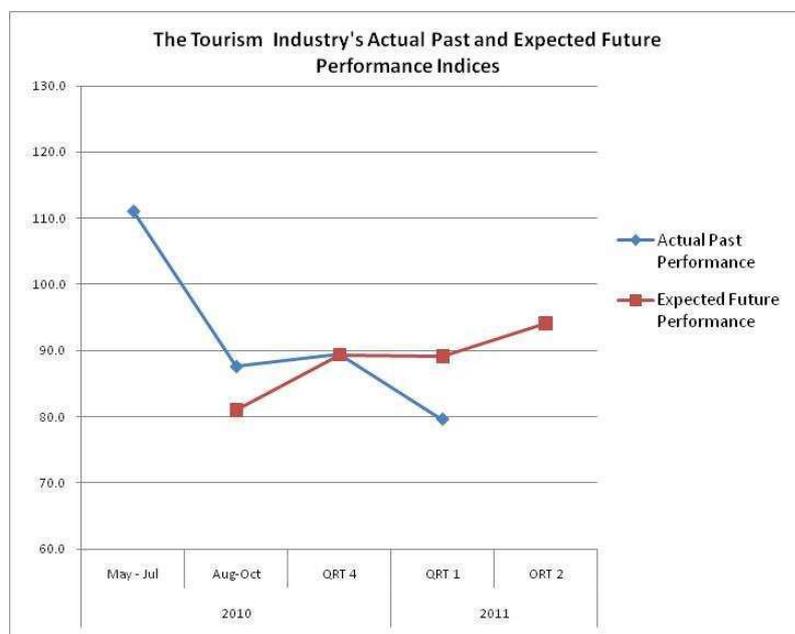
It is a business index that focuses on the performance and profitability of businesses operating in the sector, as oppose to a sector performance index. While in many instances the subtle distinction between the two approaches would not manifest in different indices, in certain circumstances, they may be different. For example, if there is significant over-capacity in the industry, business performance can be weak, while the industry could be experiencing strong growth and making an increasing contribution to GDP. As the TBI tracks and forecasts tourism business performance, it is not separated into domestic and foreign tourism. Many tourism businesses host or handle both inbound and domestic tourists and therefore demand and characteristics in both major markets are inextricably linked to business performance.

The information is designed to help individual businesses understand the current tourism operating environment and plan for the likely future tourism industry environment.

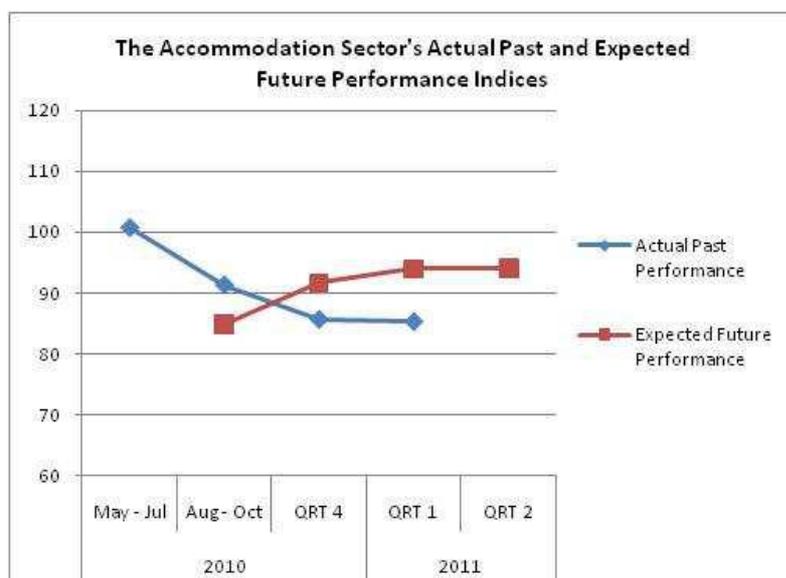
This edition of the TBI is based on responses from a wide range of tourism businesses. The information is collected through an online survey of tourism businesses that takes no more than 15 minutes to complete. Businesses submit data after the end of the quarter.

Note: The pilot surveys did not follow exact quarters. The first two pilots each covered 3 months from May to July, then August to October, while the last survey of 2010 covered the last quarter, ie October to December. October was therefore included in two indices. Now the TBI is moving out of the initial pilot phase, only regular quarters will be covered.

## The Tourism Business Index



For the first quarter of 2011 the TBI registered a performance index of 79,6 against a normal of 100. When compared to the expected industry performance index of 89,1 for the first quarter of 2011, the tourism industry overall has performed significantly worse than expected. Both the accommodation and other tourism business sectors performed worse than what was anticipated for the first quarter of 2011.



### What is Normal?

The reported changes or expected changes in demand and profitability are expressed relative to the expected normal levels of business for the relevant period. Normal is defined as “the level of acceptable business performance in line with the realistic long term average performance you would hope to achieve, or the long term average historical performance experienced, during this quarter, i.e. taking seasonal variances into account”.

Normal is then calibrated to an index of 100. When the index shows Performance or Prospects at higher than 100, this indicates better than normal performance while, below 100 indicates worse than normal performance.

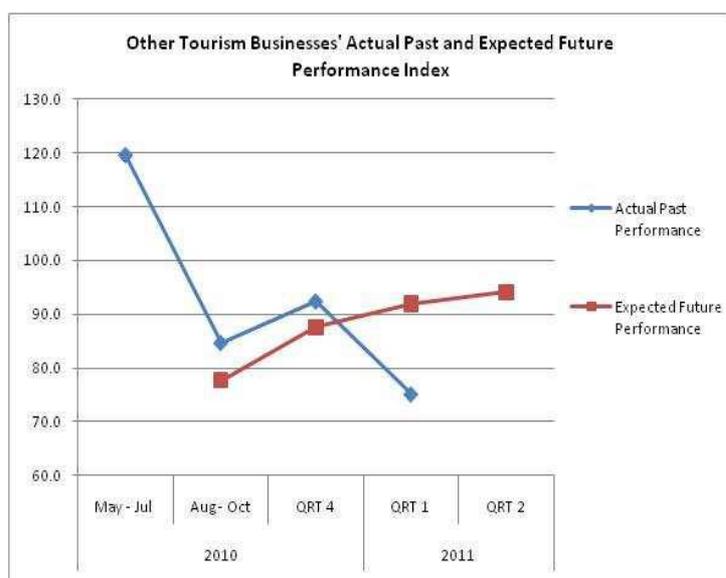
If all business surveyed indicate a significantly better than normal performance across all dimensions covered, the index could register a maximum high of 200, while significantly poor performance for all businesses would result in an index of 0.

2 – 3 Years is usually required before a business tendency index can be said to be fully bedded-down. This allows performance and prospects to be compared over time and any underlying response bias that could impact on the index to be adjusted for.

The accommodation sector performance index for the first quarter of 2011 was 85,3. When compared to the expected performance index of 93,7, for this quarter, the result indicates that overall accommodation businesses have had a poor quarter compared to their expectations, and are operating well below normal levels. Surprising then is the bullish outlook of the accommodation sector for the second quarter of 2011. Operators have recorded an expected performance index of 94 for the accommodation sector in the second quarter of 2011.

This poor accommodation sector performance index is largely influenced by the large hotel and lodge groups which, during the first quarter of 2011, performed well below normal. The accommodation index was also depressed by the worse than normal performance experienced by B&Bs and guest houses and the smaller independent hotels, self-catering and camping operators and game lodges. In contrast, the timeshare and large self catering group operators actually recorded higher than normal levels of performance.

Other tourism businesses had the lowest performance during the first quarter of 2011 with an index of 75,1. Once again, when this performance is compared to the sector's expected performance index of 91,9 for the first quarter, and this sector of the tourism industry therefore performed much worse than had been expected.



Within this sector of the tourism industry, activities and attractions, tour operators, retail and FOREX operators all recorded significantly worse than normal performances. Conference centres and travel agents recorded normal performance levels, while airlines were the only respondent group who had recorded higher than normal performance levels.

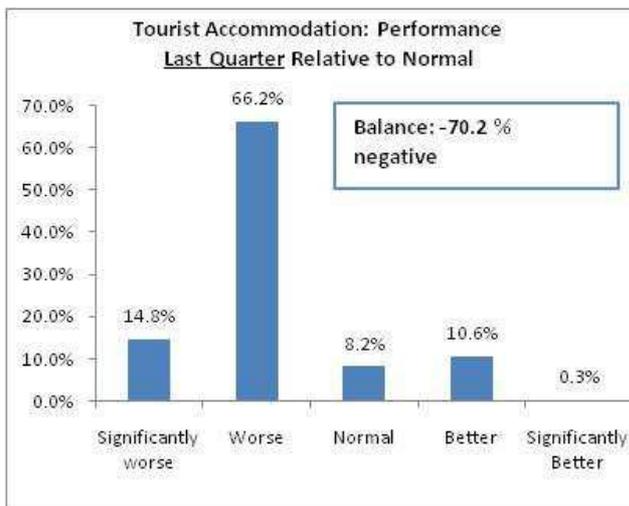
The current environment for tourism is tough to operate in, compounded by the many global disasters and political unrest felt in the first quarter of 2011.

It is very surprising therefore to notice a bullish outlook within this sector of the tourism industry. For the second quarter of 2011, the other tourism business operators reported an expected performance index of 94,1, much higher than the actual quarter 1 performance index.

## Balance Statistics

### Last Quarter

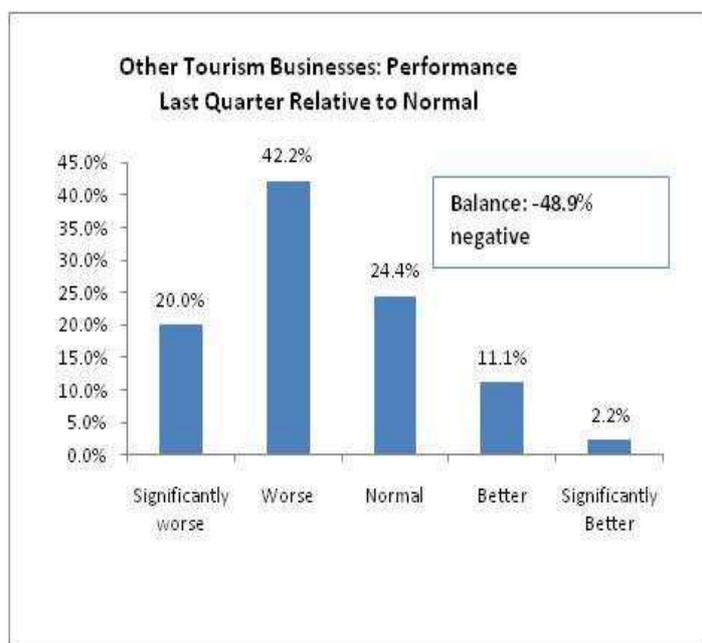
Considering the balance statistic, the accommodation sector was very negative about the first quarter of 2011, illustrated in the negative balance statistic of -70,2%. When compared to what the sector had expected their performance to be in the first quarter of 2011 (negative balance statistic of -59,1%), this indicates that these operators felt that they had performed even worse than expected. This highly negative outlook is as a result of 66,2% of the operators feeling that their business performance was worse than normal, while 14,8% felt that they performed significantly worse than normal during the last quarter. Only around 11% recorded performance levels above normal.



### The Balance Statistic

Results from qualitative questions are provided in the form of a “balance” statistic. This is the difference between the percentages of positive and negative responses. A balance for each question is calculated by deducting the percentage of negative replies from the percentage of positive answers given to each question. The final value is a single figure, with a minus representing an overall negative outlook or performance and a positive figure an overall positive outlook or performance. For a given balance, the varying percentage of “normal” replies and the split of positive/negative replies over the two options in the scale may indicate a varying degree of uncertainty or a stronger positive or negative outlook amongst managers.

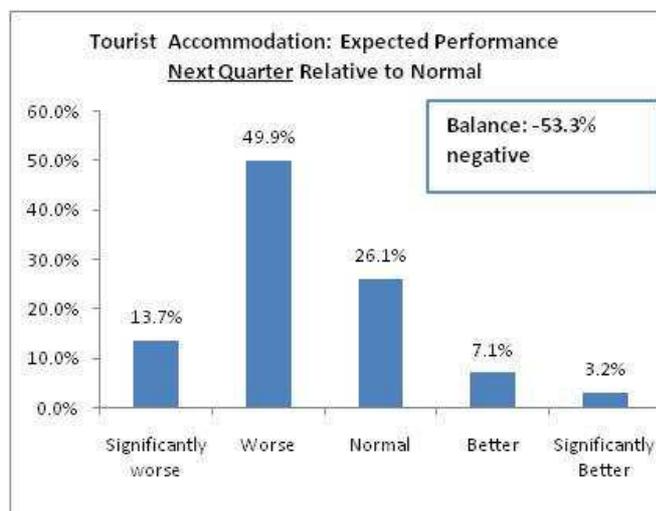
This overall negative performance is no doubt disconcerting for the industry, taking into consideration the over-supply and recessionary conditions which are still very prominent in the accommodation market.



The other tourism businesses were slightly less pessimistic about the first quarter of 2011 with a negative balance statistic of -48,9%. The majority (42%) of these business operators feel that their performance levels during the last quarter were worse than normal, while 20% recorded significantly worse than normal business performance. Only 13,3% of the operators recorded performance levels better or significantly better than normal.

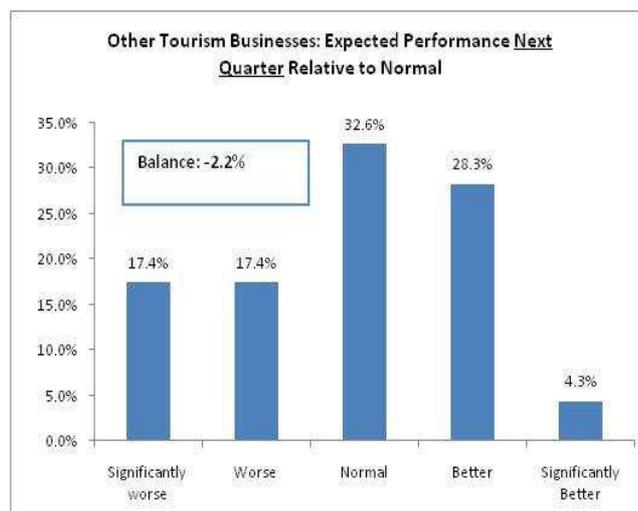
Once again, by comparing this negative balance statistic with the expected performance balance statistic for this quarter (negative -42,2) the operators within this sector felt that they had performed even worse (if only slightly) than expected in the first quarter of 2011

### Next Quarter



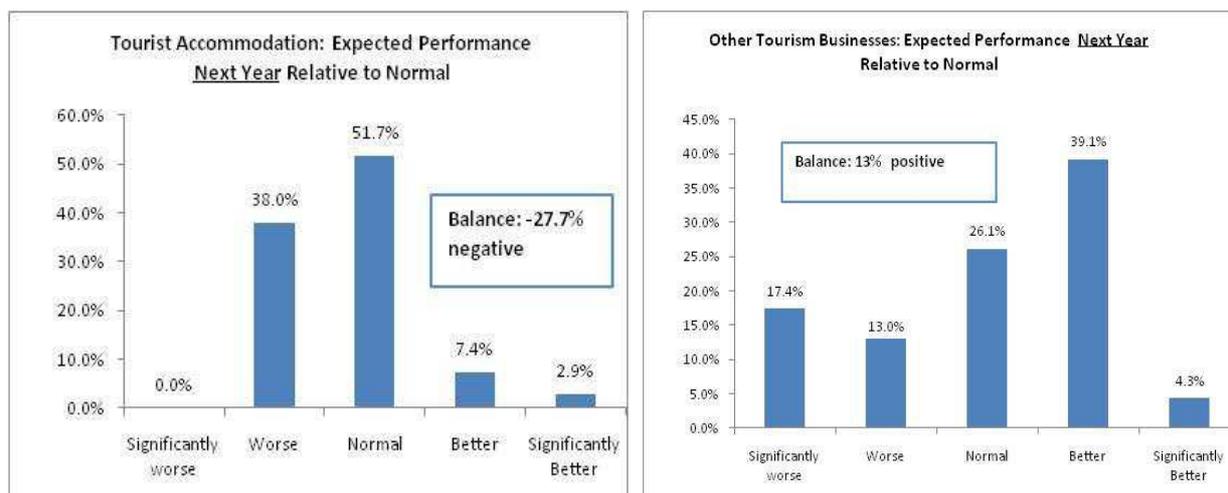
For the next quarter, the accommodation sector is once again strongly negative (-53,3%) about their performance levels. The majority of the accommodation operators (49,9%) felt that their performance levels during the second quarter of 2011 will be worse than normal, while 13,7% felt that their performance will be significantly worse than normal. However, a significant number of operators (26,1%) felt that that the next quarter's performance levels will be normal.

Other tourism businesses are much less pessimistic about the second quarter of 2011, with a negative balance statistic of only -2,2%. 34,8% Of the operators expect the performance levels to be worse or even significantly worse than normal, compared to 32,5% expecting better than normal performance, while 32,6% expect the performance levels to return to normal, resulting in the slightly negative balance statistic.



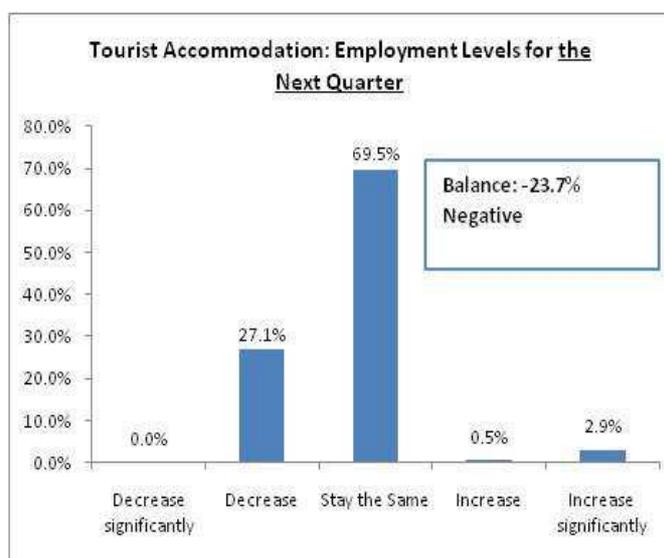
## Next Year

When considering the next year (as appose to the next quarter) overall prospects start to improve. The accommodation sector remains negative on balance, indicating a balance statistic of -27,7%. A minimal number (2,9%) of accommodation businesses expect better than normal performance whilst 51,7% expect normal business levels. 38,0% Of the accommodation operators expect the business levels to be worse than normal.

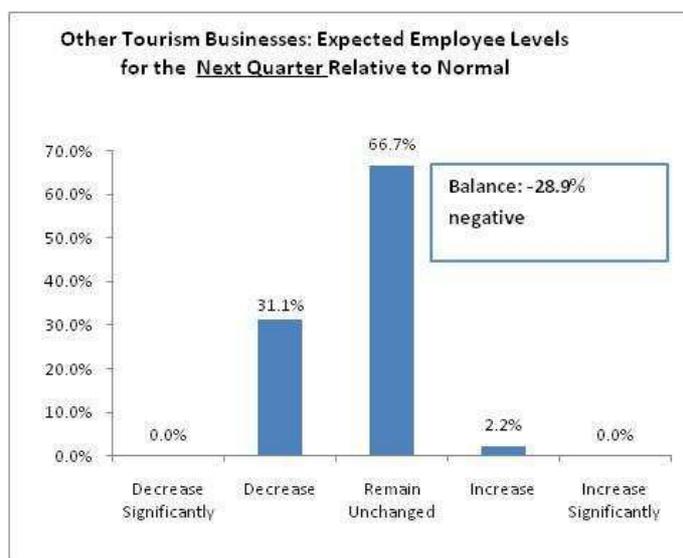


Overall, the other tourism businesses are more optimistic about the next year. This sector's balance statistic for the next year is positive for the first time at 13%. Even though a large portion of the operators (30,4%) expect performance levels worse and significantly worse than normal, 65,2% are expecting better than normal and normal performance levels. Only a small number (4,3%) are actually expecting significantly better than normal business performance levels during the next year.

## Employment Levels



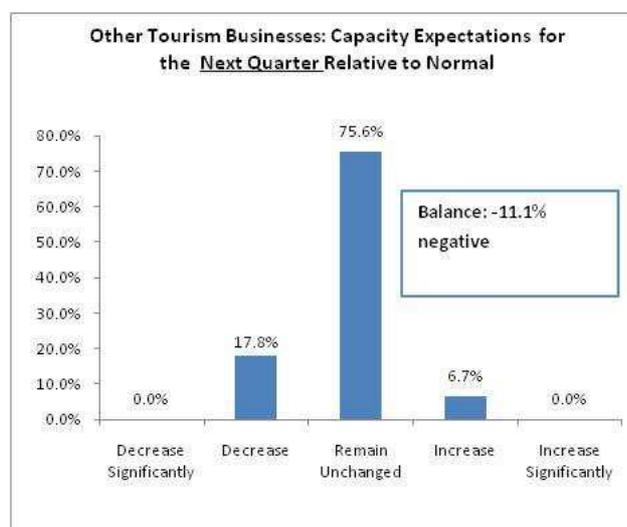
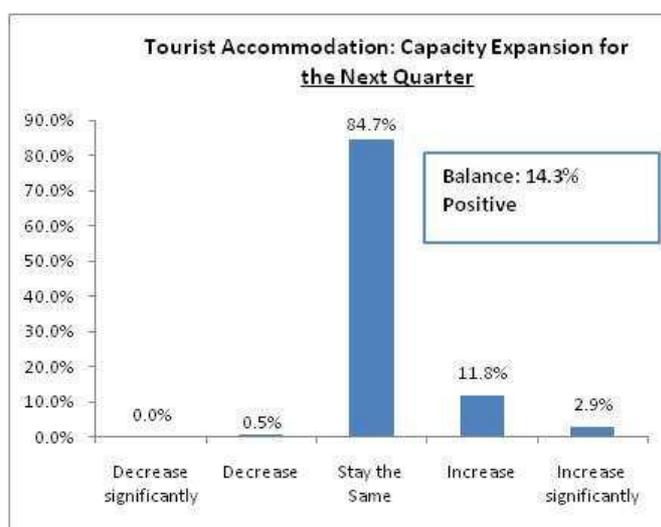
The accommodation sector has a negative expectation regarding employment levels in the second quarter of 2011. Miniscule numbers of operators (0,5%) believe that their employment levels will increase, while 2,9% are expecting significant increases. While it is concerning that 27,1% of the operators stated that they expect their employment levels to decrease, the majority (69,5%) of the operators are expecting their employment levels to remain unchanged. This expectation, even in spite of their negative outlook regarding their expected future business performance levels, indicates that the majority of the operators expect to retain their employees even if the business situation is tough to operate in.



Likewise, the other tourism businesses do not expect growth in their future employment levels. The same trend is visible in the other tourism businesses as was highlighted above for the accommodation sector. The majority (66,7%) of the operators expect that there will be no change in their employment levels, while 31,1% expect decreases in employment levels.

Again this highlights the culture of retaining staff even if the operating conditions are difficult. However, the tougher than expected conditions for operators in these sectors is reflected in the change in their expectations regarding employment levels which decreased from a positive expectation (9,5% balance statistic) for the first quarter of 2011, to a negative balance statistic of -28,9% for the second quarter.

### Capacity Growth Expectations



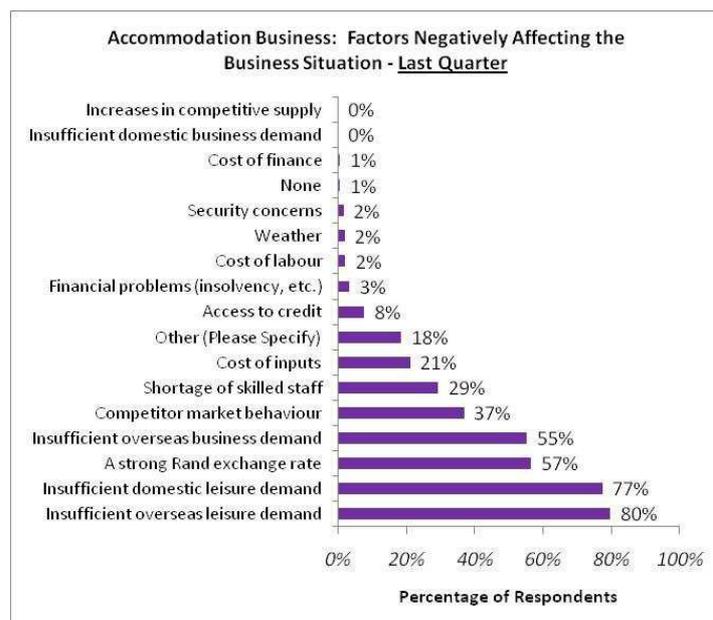
The accommodation operators indicate limited plans to bring on extra room/unit capacity within the next quarter, as is to be expected with the over-supply currently present in many locations for the accommodation sector. 84,7% Of the operators indicate that their capacity is expected to remain the same, while only 11,8% expect to increase their room/unit capacity. A miniscule number of operators (0,5%) indicate an expected decrease in the room capacity during the second quarter of 2011, resulting in the positive balance statistic of 14,3%.

In contrast the other tourism businesses report a negative balance statistic of -11,1%. The majority of the operators (75,6%) are expecting that their capacity will remain unchanged, while 17,8% felt that their capacity will decrease. Only a very small number of operators (6,7%) expect their capacity to increase.

## Factors Affecting Business Conditions

When considering the performance of the Tourism Industry, this report considers both positive and negative possible factors which could impact on the performance of the different sectors.

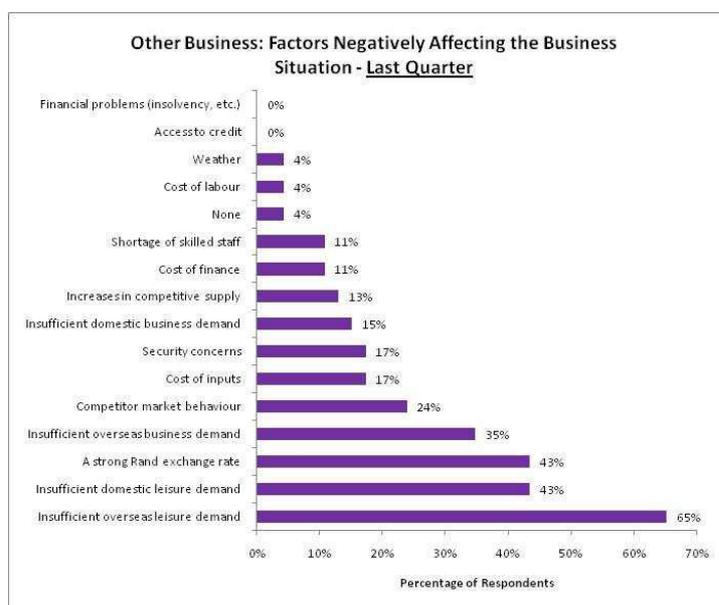
### Negative Factors - Last Quarter



In the accommodation sector, 80% of the operators reported insufficient overseas leisure demand as a negative impacting factor during the first quarter of 2011. This was closely followed by insufficient domestic leisure demand, a strong Rand exchange rate and insufficient foreign business demand (77%-37%). Noteworthy is that 29% of the operators felt that the shortage of skilled staff negatively affected their business in the first quarter of 2011 compared to only 4% who stated this as a negative contributing factor during the last quarter of 2010.

Some specific other factors cited which had a negative impact on players in the accommodation industry during the first quarter; include municipal tariffs, increased fuel costs and the increase in numbers of illegal guest houses and B&B.

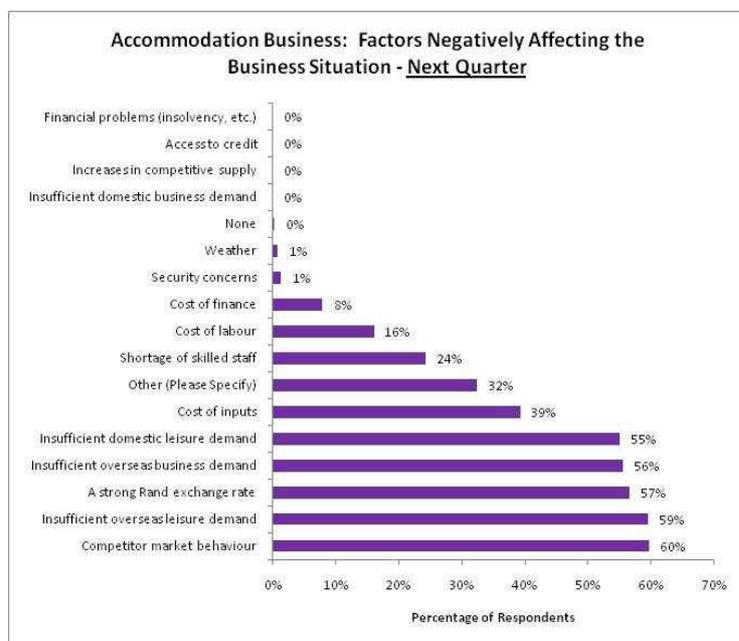
Increase in competitive supply, insufficient domestic business demand and the cost of finance were indicated as the least impact factors



Other businesses indicate more impediments to business performance in the first quarter of 2011. Insufficient overseas leisure demand (65%), insufficient domestic leisure demand (43%) and a strong Rand exchange rate (43%) were indicated as the main negative contributing factors. Insufficient foreign and domestic business demand (35% and 15%), competitor market behaviour (24%), security concerns (17%) and the cost of inputs (17%) were all perceived as strong negative impacting factors. The factors which least impacted these businesses were: access to credit; cost of finance and weather.

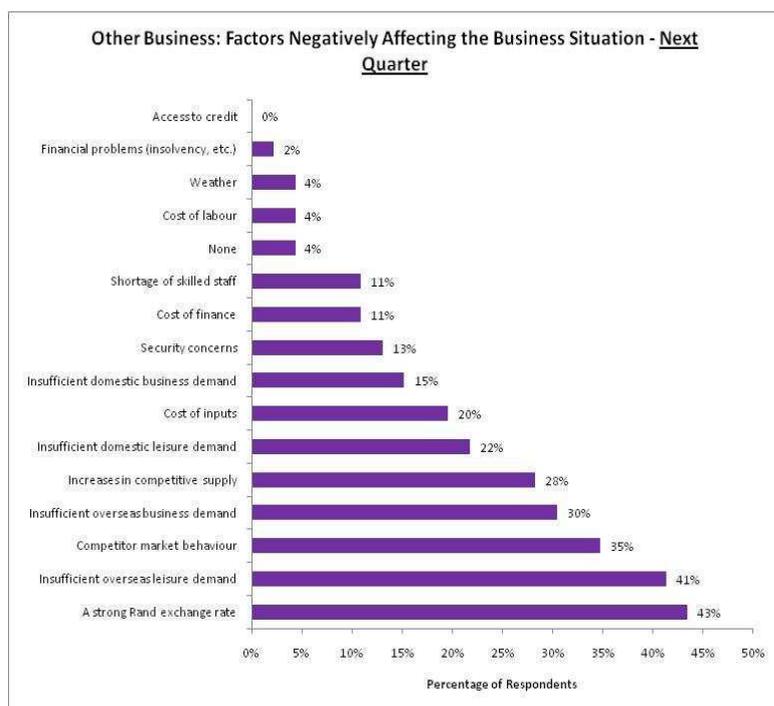
Only 11% of the operators felt that the shortage of skilled staff negatively affected their business operations during the first quarter of 2011. This is significantly lower than the operators in the accommodation sector and unlike the significant increase noticed in the accommodation sector, this level has remained stable in the other business tourism sector.

### **Negative Factors - Next Quarter**



60% of the accommodation operators report that competitor market behaviour is expected to have a negative impact on the accommodation sector's operations during the next quarter. Insufficient overseas leisure demand (59%), a strong Rand exchange rate (57%) and the insufficient overseas and domestic business demand are all important expected negative impacting factors. 24% of the operators quote the shortage of skilled staff as a negative factor. Increases in municipal tariffs, increased fuel costs and the growing number of illegal guesthouses and B&Bs are cited as specific factors by some establishments that are expected to continue having a negative impact on the accommodation sector.

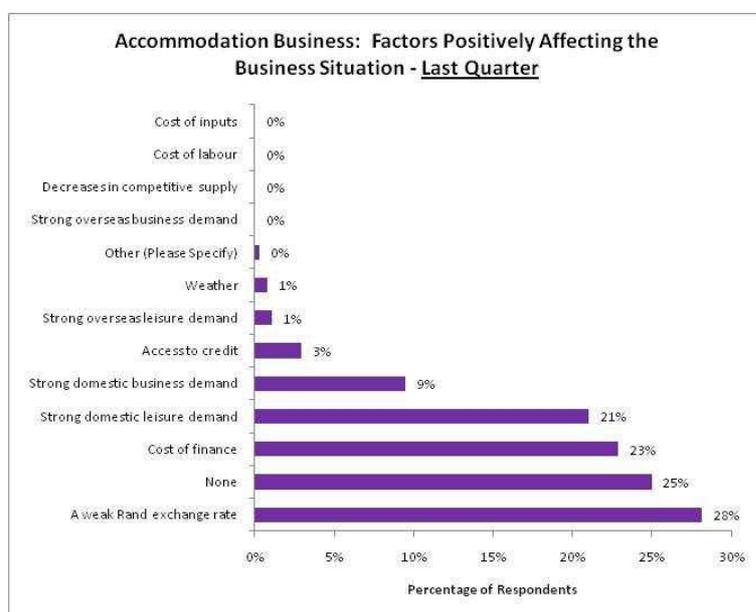
Only 1% of the accommodation operators choose security concerns as a negative impact.



For other tourism businesses, a strong Rand exchange rate (43%) is seen by the largest number of respondents as a negative impact factor. The decrease in foreign leisure and business demand (41% and 30%), competitor market behaviour (35%), the cost of inputs (20%) and insufficient domestic leisure and business demand (22% and 15%) are some of the other important negative impacting factors.

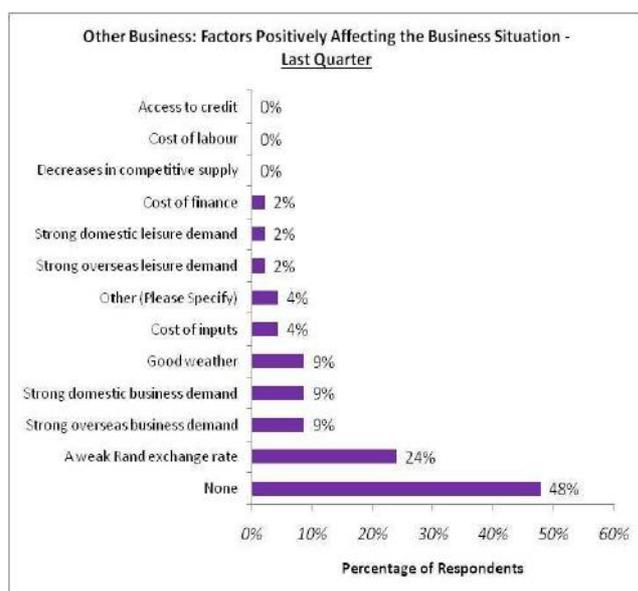
Weather, access to credit, financial problems and the cost of labour were the least mentioned negative impacting factors expected for the second quarter of 2011. Shortage of skilled staff remains as an expected moderate negative impacting factor for 11% of the operators.

### **Positive Factors - Last Quarter**



A large portion of the accommodation operators (28%) felt that a weak Rand exchange rate was a positive impacting factor during the first quarter of 2011, however, 25% did feel that there was no particular positive impacting factor at all. Cost of inputs, cost of labour, a decrease in competitive supply and a strong foreign business demand were the least positive impacting factors.

One accommodation operator felt that the additional conference venue they opened added to their product offering and had increased business performance.

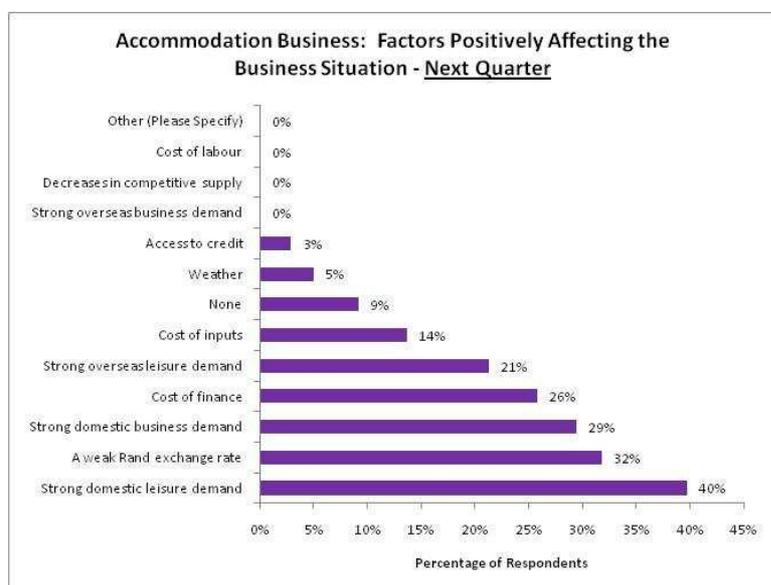


The largest portion of the operators (48%) in the other tourism sector felt that no specific factor had a real positive impact on their business operations during the first quarter of 2011. Again a weak Rand exchange rate was quoted by a large portion of the respondents as a strong positive impacting factor (24%). It seems that whether real or perceived, the temporary weakening of the rand during the quarter was seen as positive.

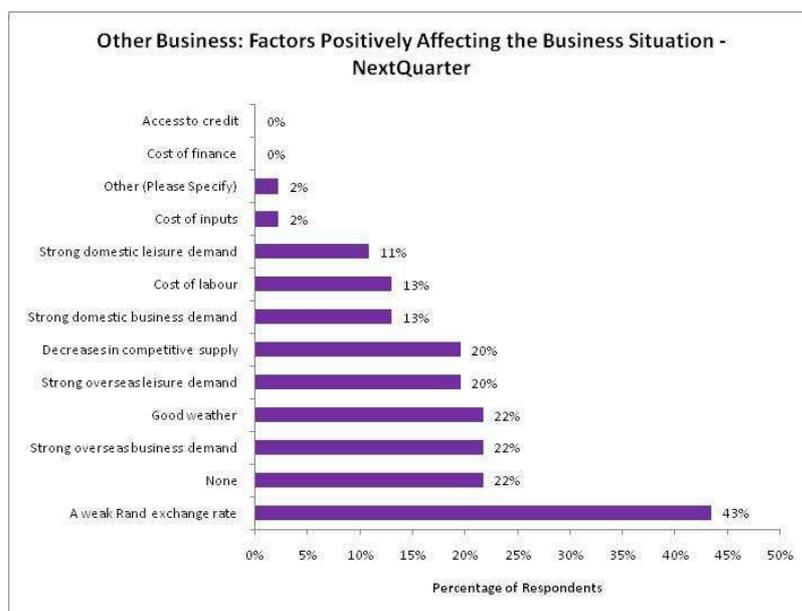
A strong foreign and domestic business demand as well as good weather (24% combined) were the other important factors which contributed positively on the operator's performance levels.

One respondent felt that their targeted PR and advertising campaign which was aimed at a well kept database of preferred clients contributed positively to their business performance during the last quarter.

### **Positive Factors – Next Quarter**



For the second quarter of 2011, the largest portion of the accommodation operators (40%) expect strong domestic leisure demand to be an important positive impacting factor. Other important factors expected to have a positive impact on the operators' business performance include; a weak Rand exchange rate (32%), strong domestic business (29%), cost of finance (26%) and strong foreign leisure demand (21%). Noteworthy is that none of the operators expect strong foreign business demand to have a positive impact in the next quarter.



Looking at the other tourism businesses, 43% expect a weak exchange rate to have a positive impact on their business performance in the next quarter. Strong foreign business demand and good weather (44% combined) are also expected to have a positive impact. This is surprising in light of only 18% of operators who felt that these two factors had a positive impact on their business performance levels during the first quarter of 2011. Noteworthy is that 22% of the operators expect no specific factor will have a positive impact on their business during the next quarter of 2011.

## General Business Indicators

The Quarterly RMB/BER Business Confidence Index (“BCI”) for 2010 and the first quarter of 2011 is illustrated in the table below.

2010				2011
Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1
43	36	47	44	55

Source: BER

As 50 indicates neutral levels of confidence, the index was in negative territory during 2010, however its lowest point in the recent recessionary cycle was 23 in Q4 2009. In the Q1 2011 the index number is in net positive territory and means there are now more companies that are optimistic than pessimistic about prevailing business conditions. The last time this was the case was three years ago. What the Q1 2011 results imply is that growth momentum is spreading, according to RMB/BER, with the exception of the building sector. However, one of the industries which therefore also seems to be remaining negative, along with building, is the tourism industry.

Currently the general and tourism business outlook is somewhat more pessimistic, with tourism at 79,6 below 100, compared to 55 above 50 for the BER. The RMB BER is a business tendency survey based on OECD methodology as is the FNB TBCSA TBI.

The SACCI Business Confidence index is a composite indicator, as oppose to a tendency survey, but it is another regular and timeous indicator of economic activity. The index is based on the average economic activity for 2005 being a base of 100. Given that the index rose above 100 in 2006 and the early part of 2007, the index, now being significantly below 100 indicates generally low levels of business confidence. The index average for 2009 was 82,8, the lowest it has been since 1997. The index average rose only slightly in 2010 with 2,1 index points to 84,9.

The SACCI BCI for the first quarter of 2011 is presented in the adjacent table.

2011		
January	February	March
87,4	86,4	88,3

The BCI moved ahead to 88,3 in March 2011 after contracting to 86,4 in February 2011. The BCI is 5,1 index points higher than in 2009 and is the highest, in recent times, since September 2008 when the BCI stood at 89,9. March 2011’s improvement might further enhance the momentum in business confidence as the 88 is indicative of a growing base for more sustainable economic improvement.

The FNB TBCSA Tourism Business Index indicates slightly weaker business performance for the first quarter of 2011 when compared to the SACCI BCI.