



TOURISM BUSINESS INDEX

Mainstreaming Travel and Tourism in the South African Economy

TBCSA FNB Tourism Business Index

4th Quarter 2014 Results

Compiled by Grant Thornton

TBCSA FNB Tourism Business Index

Introduction

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

The TBI provides an indication of the current and likely future performance of 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. The information for the TBI is collected through an online survey of tourism businesses completed after the end of the quarter.

The first official edition of the TBI was released on the 18th of January 2011.

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”

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 results, 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.

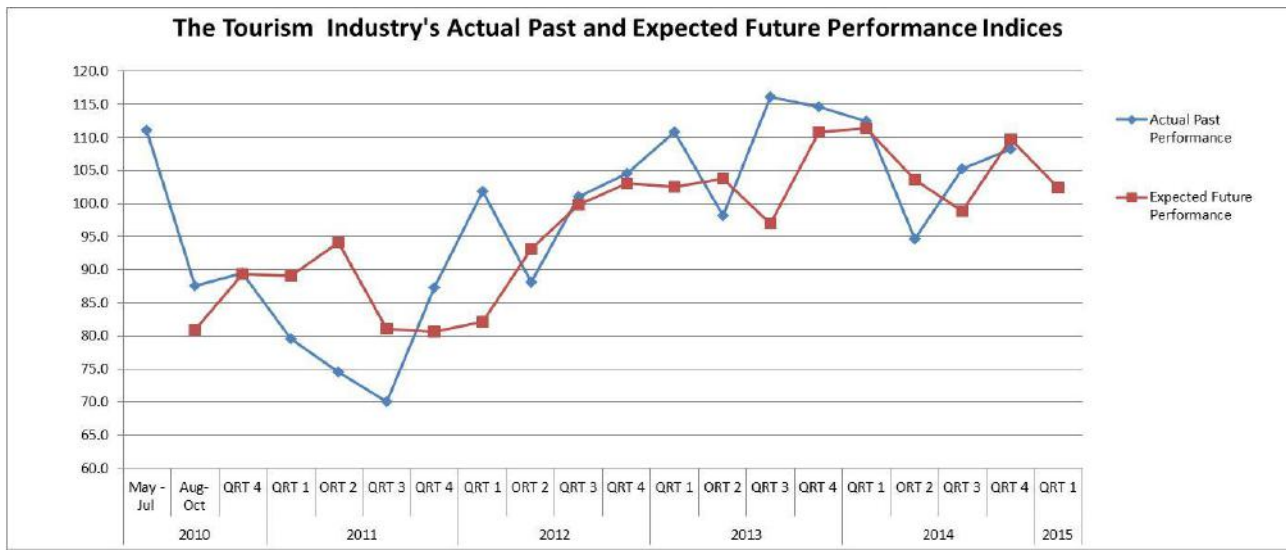
As the TBI tracks and forecasts tourism business performance, it is not separated into domestic and foreign tourism. Many tourism businesses host or handle both inbound and domestic tourists and therefore demand and characteristics in both major markets are inextricably linked to business performance.

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

Note: The first two surveys in 2010 were pilot surveys which did not follow exact quarters. They each covered 3 months from May to July 2010, then August to October 2010, while the last survey of 2010 covered the last quarter, i.e. October to December. October was therefore included in two indices. From the first official edition in 2011 onwards, only regular quarters are covered.

TBCSA FNB Tourism Business Index

The Tourism Business Index



- The Tourism Industry performed almost in line with expectations recording an index of 108,3 compared to the forecast 109,8 for Q4 2014.
- Overall, business performance for the first quarter of 2015 is expected to remain at almost normal levels with an expected index of 102,4.
- The Accommodation Sector experienced higher than normal business performance at 113,3 – this index represents the highest recorded index for Q4 since inception.
- The Accommodation Sector remains conservative on outlook; expecting almost normal business performance for Q1 2015 (101,9). Within this, hotel group respondents forecast lower than normal business performance for the upcoming quarter.
- Other Tourism Businesses performed very slightly better than normal (104,4) with Forex, Activities and Attractions, Conference Centres and Car Hire indicating higher than normal business performance for Q4 2014.
- Overall, Other Tourism Businesses expect almost normal business performance next quarter (Q1 2015) with an index of 102,7, at a very similar level to the

What is Normal?

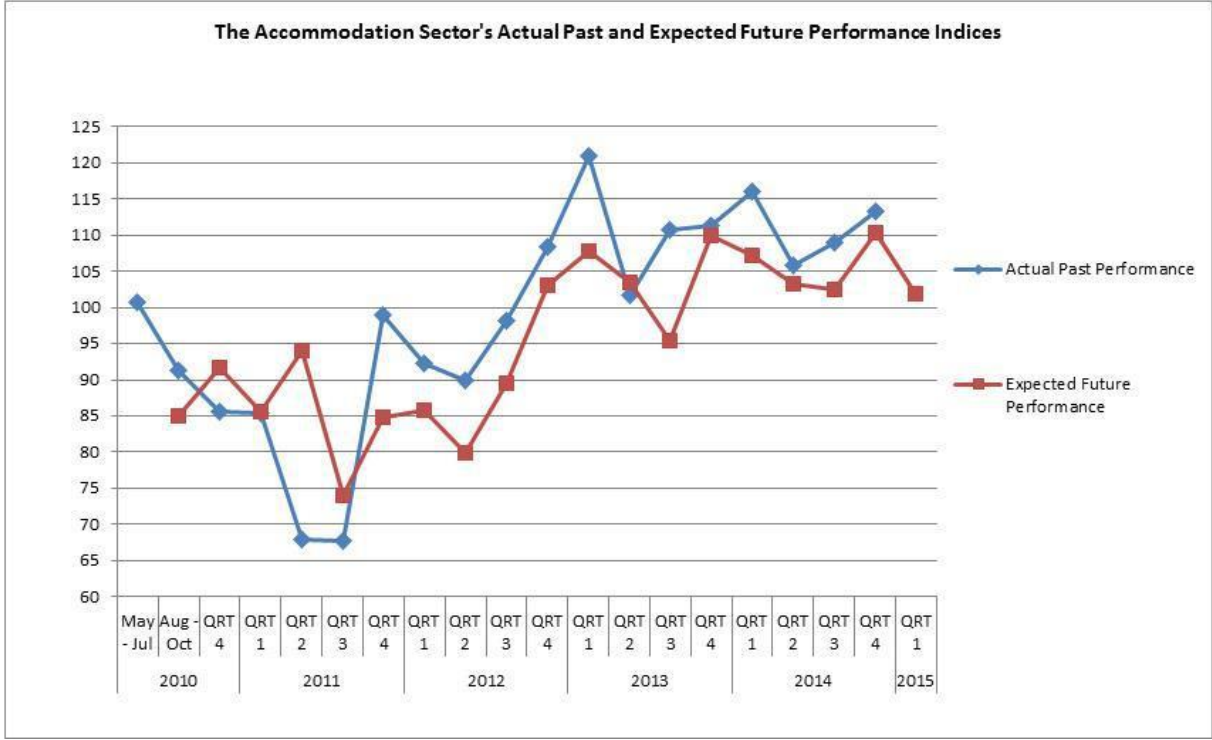
The reported changes or expected changes in demand and profitability are expressed relative to the expected normal levels of business for the relevant period. Normal is defined as “the level of acceptable business performance in line with the realistic long term average performance you would hope to 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.

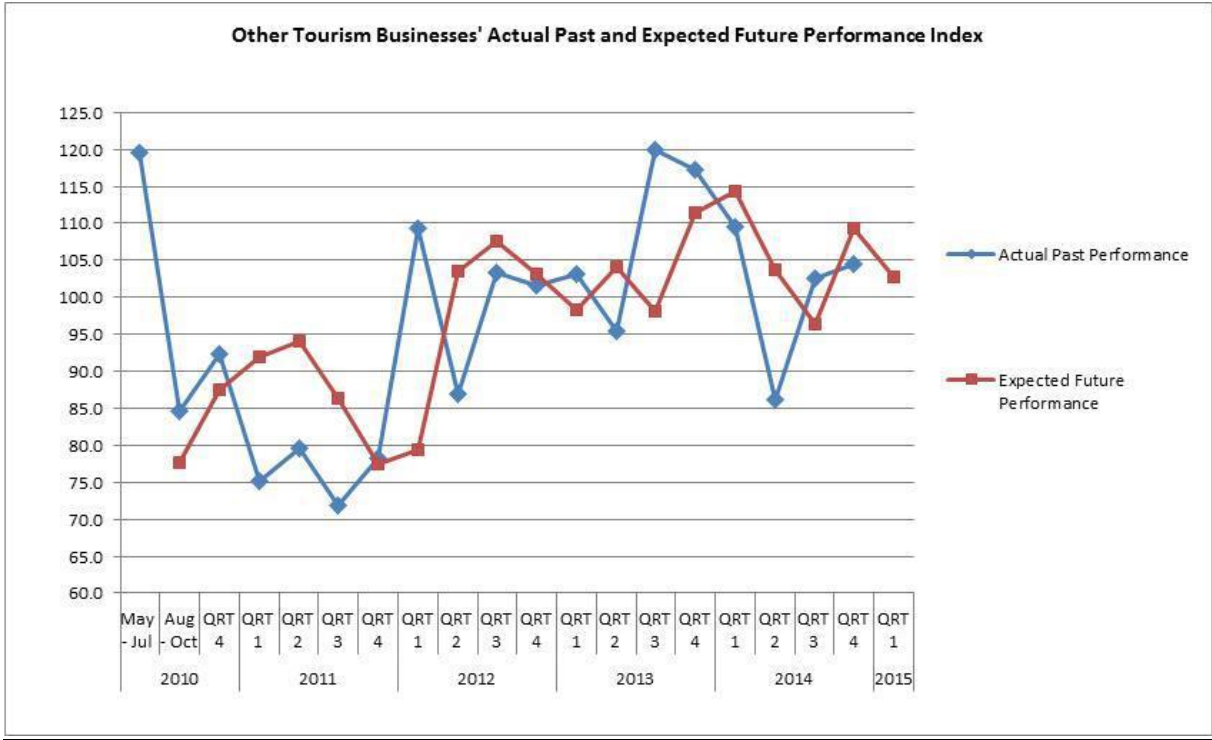
If all business surveyed indicate a significantly better than normal performance across all dimensions covered, the index could register a maximum high of 200, while significantly poor performance for all businesses would result in an index of 0.

accommodation sector . When delving into the index Tour Operators, Travel Agents and Retail forecast lower than normal business performance.

Accommodation Index



Other Tourism Business Sub Index



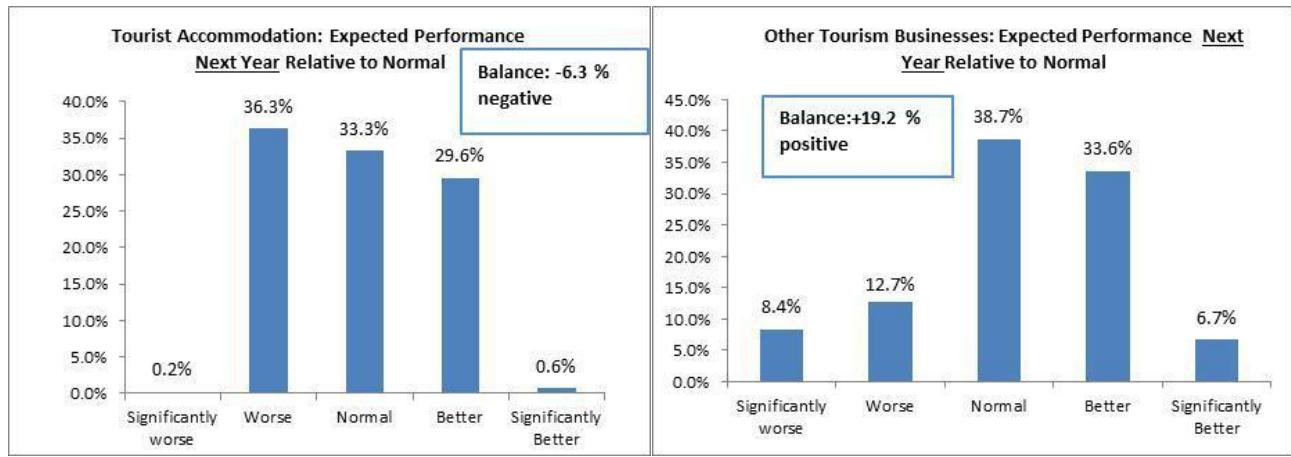
TBI Summary

		Overall		Accommodation		Other	
		Actual	Forecast	Actual	Forecast	Actual	Forecast
2011	1 st Quarter	79.6	89.1	85.3	85.5	75.1	91.9
	2 nd Quarter	74.5	94.1	67.8	94.0	79.6	94.1
	3 rd Quarter	70.0	81.0	67.7	73.9	71.8	86.4
	4 th Quarter	87.3	80.7	98.9	84.9	78.3	77.4
2012	1 st Quarter	101.9	82.2	92.2	85.8	109.3	79.4
	2 nd Quarter	88.2	93.2	89.9	79.8	86.9	103.5
	3 rd Quarter	101.0	99.8	98.1	89.6	103.3	107.6
	4 th Quarter	104.6	103.1	108.4	103.1	101.6	103.2
2013	1 st Quarter	110.8	102.5	120.9	107.8	103.1	98.4
	2 nd Quarter	98.2	103.8	101.7	103.4	95.4	104.2
	3 rd Quarter	116.1	97.0	110.8	95.5	120.0	98.1
	4 th Quarter	114.6	110.8	111.4	110.0	117.2	111.4
2014	1 st Quarter	112.4	111.3	116.1	107.3	109.6	114.4
	2 nd Quarter	94.7	103.6	105.8	103.2	86.2	103.8
	3 rd Quarter	105.3	98.9	108.9	102.4	102.5	96.3
	4 th Quarter	108.3	109.8	113.3	110.4	104.4	109.4
2015	1 st Quarter		102.4		101.9		102.7

Balance Statistics

There is no clear inclination with regard to expected business performance for next year for the Accommodation Sector. The Accommodation Sector records a balance statistic of -6,3% with a total 30,2% of respondents expecting better than normal business performance next year, and 36,5% expecting worse than normal. Other Tourism Businesses on the other hand, are more optimistic about the future recording a balance statistic of +19,2% with 40,3% of respondents expecting better than normal business performance and only 21,1% expecting worse than normal performance next year.

Next Year

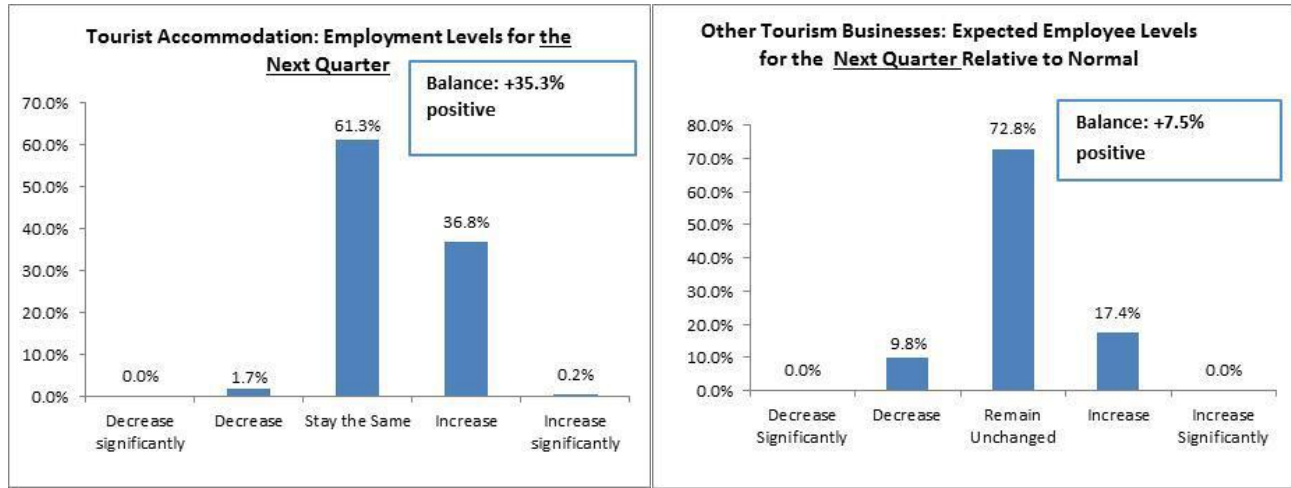


Summary of the Next Year Balance Statistic Historical Results

		Accommodation Sector	Other Sector
2011	1 st Quarter	-27.7%	+13%
	2 nd Quarter	-40.2%	-5.4%
	3 rd Quarter	-70.3%	-3.2%
	4 th Quarter	-53.0%	-16.9%
2012	1 st Quarter	-24.5%	+17.2%
	2 nd Quarter	-11.7%	+15.3%
	3 rd Quarter	-3.8%	+10.5%
	4 th Quarter	-0.6%	+37.6%
2013	1 st Quarter	+13.1%	+29.7%
	2 nd Quarter	-12.7%	+15.2%
	3 rd Quarter	-13.6%	+34.5%
	4 th Quarter	-22.4%	+28.4%
2014	1 st Quarter	+34.2%	+47.3%
	2 nd Quarter	+5.1%	+20%
	3 rd Quarter	0.0%	+15,5%
	4 th Quarter	-6.3%	+19.2%

When looking at employment levels, the expectation for next quarter is quite positive. While 61,3% of the Accommodation Sector and 72,8% of Other Tourism Businesses expect to keep employee numbers the same next quarter. A total 37% of accommodation respondents expect to increase employment levels and the accommodation sector shifts from very low / negative historical balance statistic over prior quarters to a considerably higher balance statistic of +35,3% with. Other Tourism Businesses record a balance statistic of +7,5% with 17,4% of respondents expecting to increase employment levels. Overall, these figures bode well for the job market.

Employment Levels

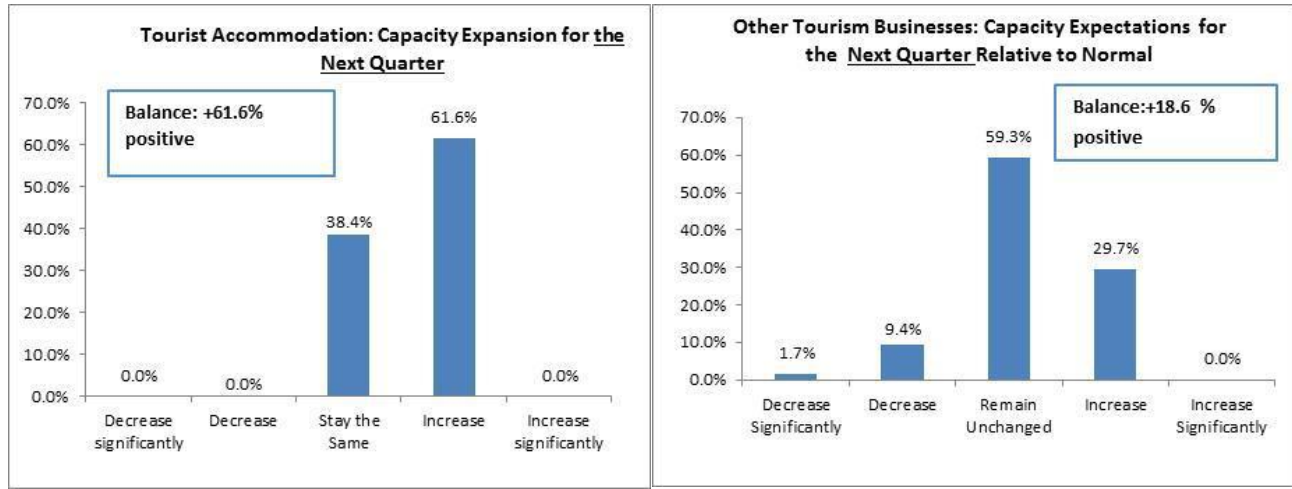


Summary of the Employment Balance Statistic Historical Results

		Accommodation Sector	Other Sector
2011	1 st Quarter	-23.7%	-28.9%
	2 nd Quarter	-25.3%	-12.3%
	3 rd Quarter	-17.4%	+1.8%
	4 th Quarter	-15.4%	+1.6%
2012	1 st Quarter	-17.3%	-3.0%
	2 nd Quarter	-3.9%	+7.4%
	3 rd Quarter	+ 6.4%	-0.6%
	4 th Quarter	+5.3%	-8.3%
2013	1 st Quarter	+0.9%	+12.5%
	2 nd Quarter	-0.2%	0.0%
	3 rd Quarter	+8.7%	+10.9%
	4 th Quarter	-19.4%	+8.8%
2014	1 st Quarter	-49.7%	+12.1%
	2 nd Quarter	+2.8%	+8.6%
	3 rd Quarter	-4.5%	+15.3%
	4 th Quarter	+35,3%	+7.5%

When looking at capacity expansion, the greatest respondents contributing to the exceptionally high balance statistic (+61,6%) for the Accommodation Sector are hotel groups. This shows that although Hotel Groups largely expect business performance to be lower than normal they intend still increasing capacity. Other Tourism Businesses also expect a positive balance of +18,6% continuing their optimistic outlook.

Capacity Growth Expectations



Summary of the Capacity Growth Balance Statistic Historical Results

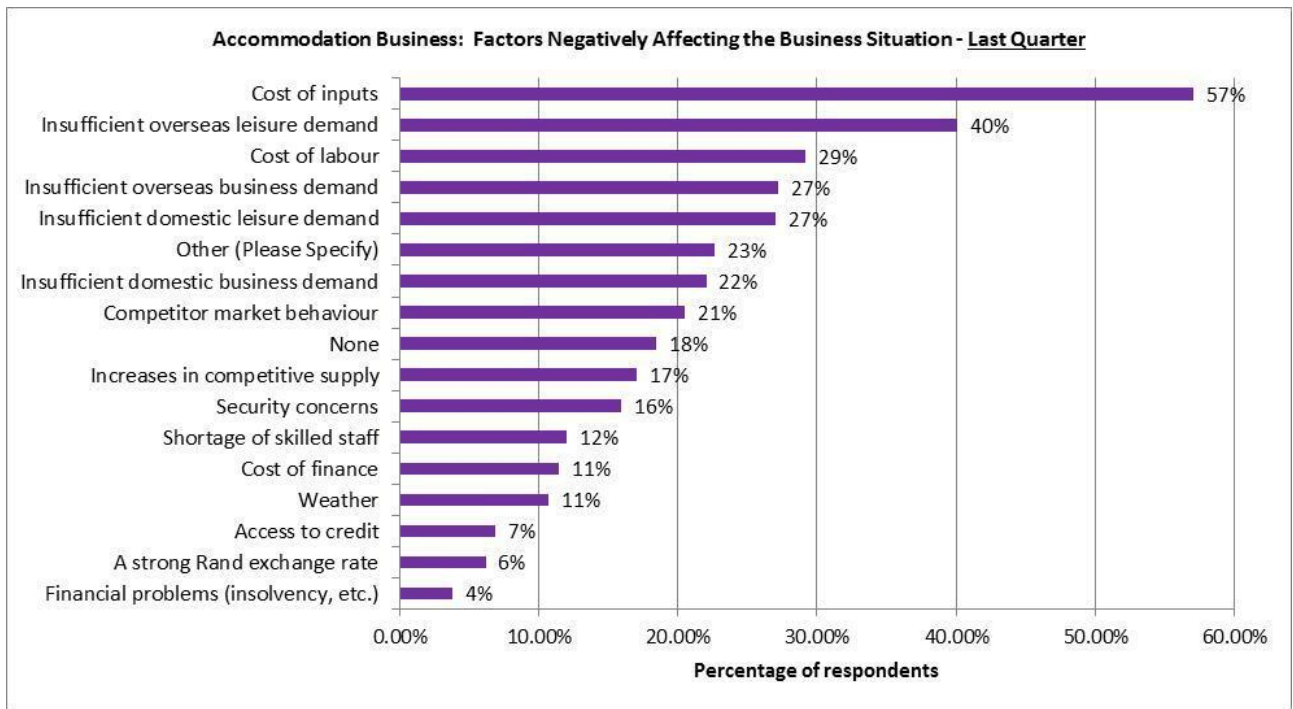
		Accommodation Sector	Other Sector
2011	1 st Quarter	+14.3%	-11.1%
	2 nd Quarter	+12.6%	+9.3%
	3 rd Quarter	+9.6%	+24.8%
	4 th Quarter	-3.3%	+21.0%
2012	1 st Quarter	+7.4%	+20.7%
	2 nd Quarter	+25.6%	+7.2%
	3 rd Quarter	+22.5%	+30.3%
	4 th Quarter	+11.1%	+26.1%
2013	1 st Quarter	+2.0%	+15.5%
	2 nd Quarter	-15.6%	+22.4%
	3 rd Quarter	+14.1%	+27.4%
	4 th Quarter	+5.4%	+40.7%
2014	1 st Quarter	+37.5%	+22.1%
	2 nd Quarter	+7.1%	+17.7%
	3 rd Quarter	+3.9%	+26.3%
	4 th Quarter	+61.6%	+18.6%

Factors Affecting Business Conditions

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

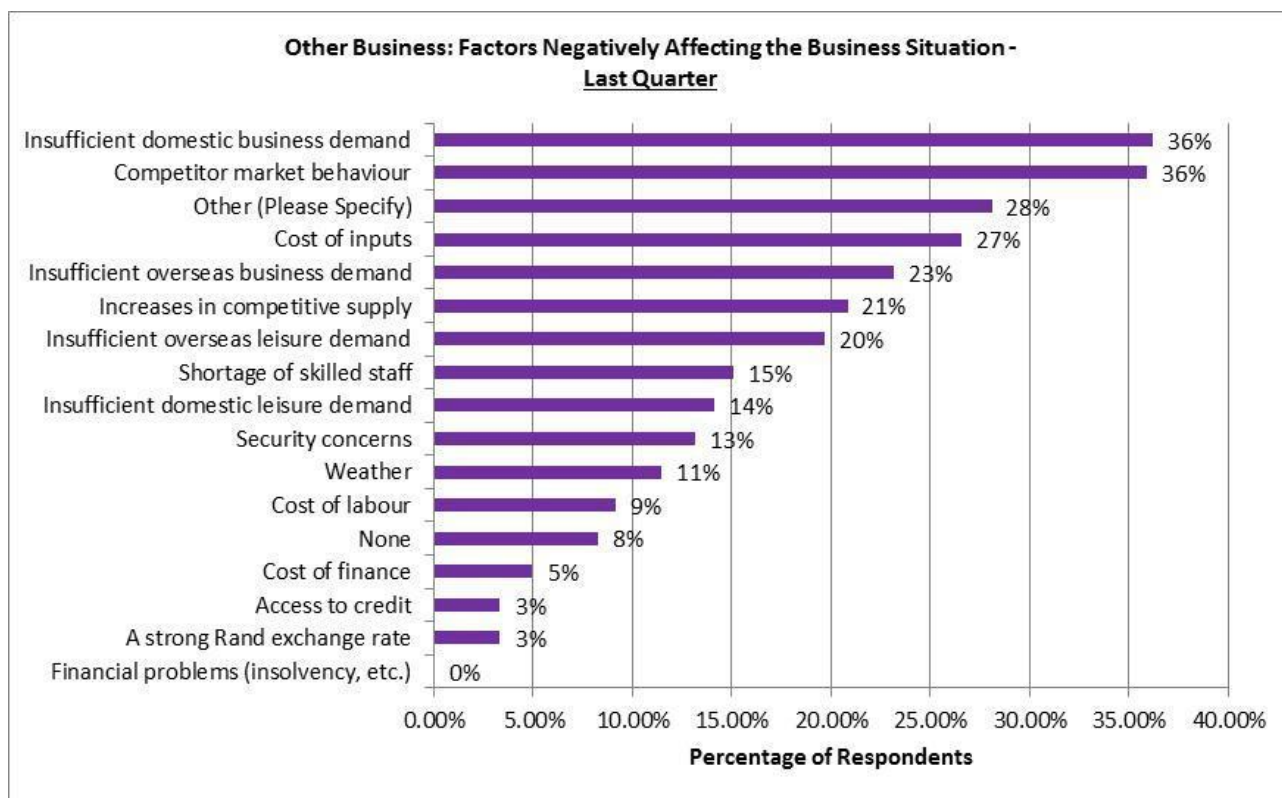
Negative Factors – Last Quarter

- For the 10th consecutive quarter cost of inputs is the most cited negative contributing factor affecting business performance in the Accommodation Sector. Overall, it continues to affect more establishments each quarter with 57% of respondents acknowledging it for Q4 2014.
- Insufficient overseas leisure demand (40%) and cost of labour (29%) continues to feature in this edition as most cited negative contributing factors.
- Other cited negative factors include:
 - Water and power interruptions;
 - Reduced demand from government;
 - High utility costs, rates and taxes;
 - The Ebola virus;
 - Bad publicity for South Africa;
 - Competition from unregistered / unlicensed establishments; and
 - Visa regulations.



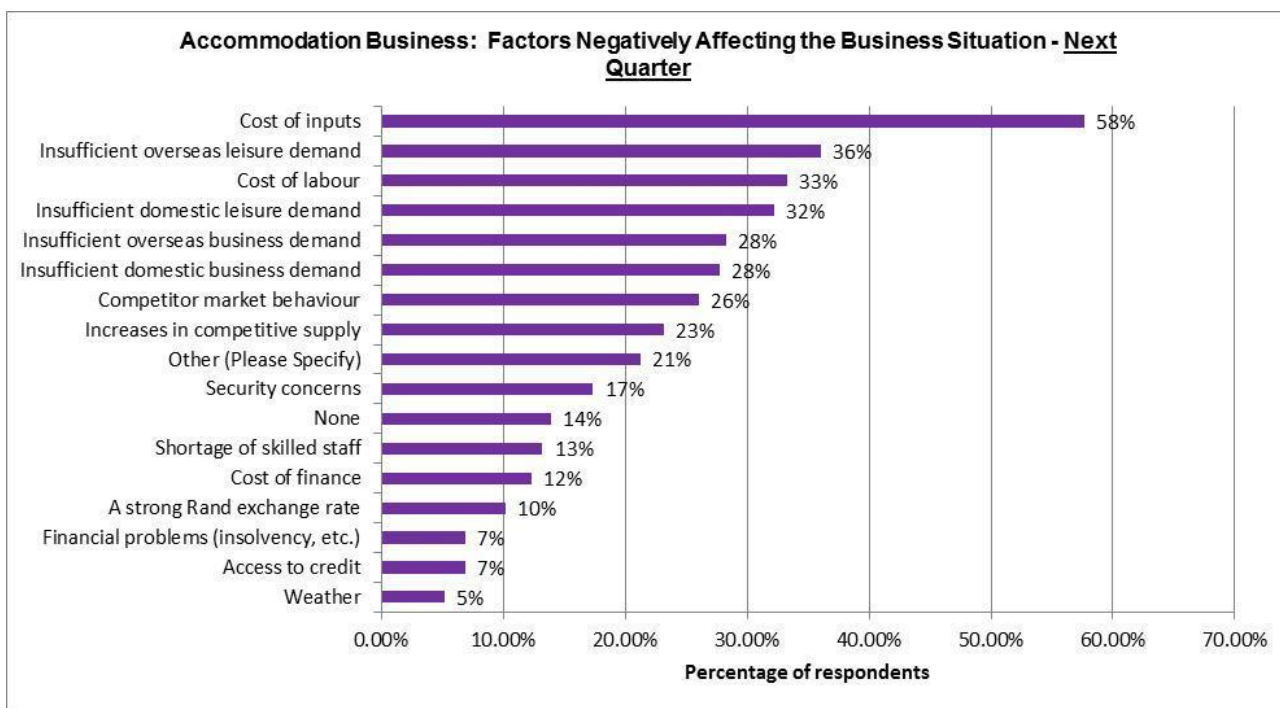
- Equally at 36%, insufficient domestic business demand and competitor market behaviour feature considerably for the last quarter for Other Tourism Businesses.
- Cost of labour (9%) has dropped substantially from the last edition’s 23% for Other Tourism Businesses. The difference to the accommodation sector where this is still felt as a constraint by 29%, is quite marked

- Other cited negative contributing factors include:
 - The impact and perceptions of the Ebola virus causing international delegates to cancel meetings / conferences / visits due to fear of contraction;
 - Visa regulations;
 - Local strikes; and
 - The absence of disposable discretionary income.

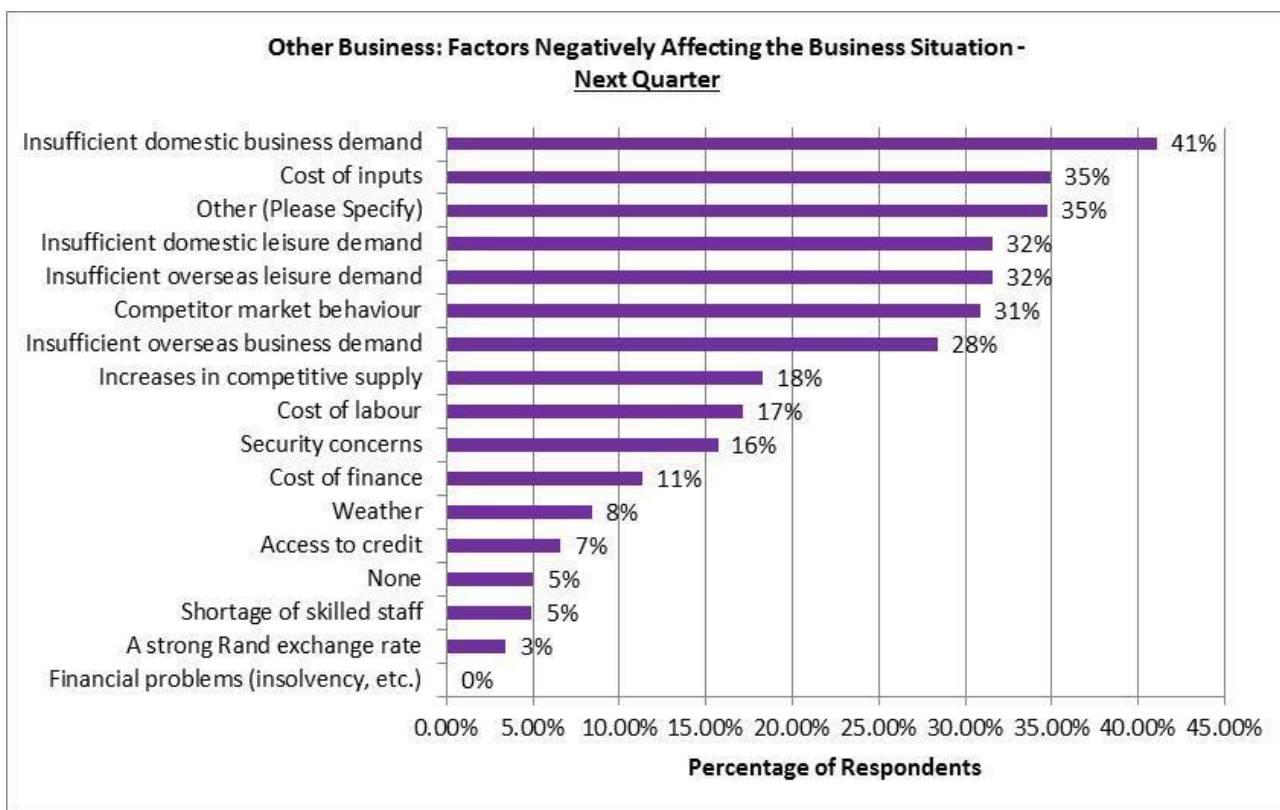


Negative Factors – Next Quarter

- The Accommodation Sector expects similar factors as cited last quarter (Q4 2014) to have a negative effect on business performance next quarter (Q1 2015) with costs of inputs (58%), insufficient overseas leisure demand (36%) and cost of labour (33%).
- Similar to last quarter actual, additional negative contributing factors include:
 - Labour strikes;
 - The Ebola virus;
 - Water and power interruptions;
 - Reduced demand from government; and
 - Visa regulations.

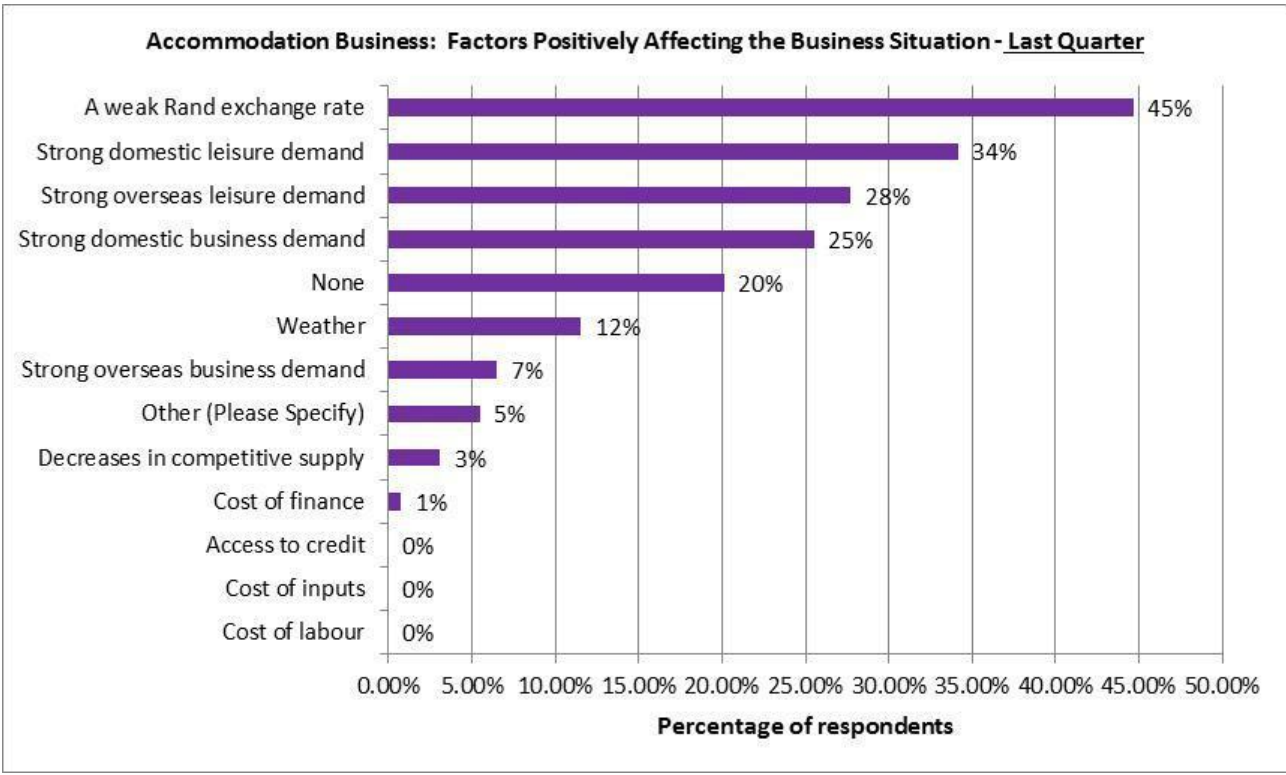


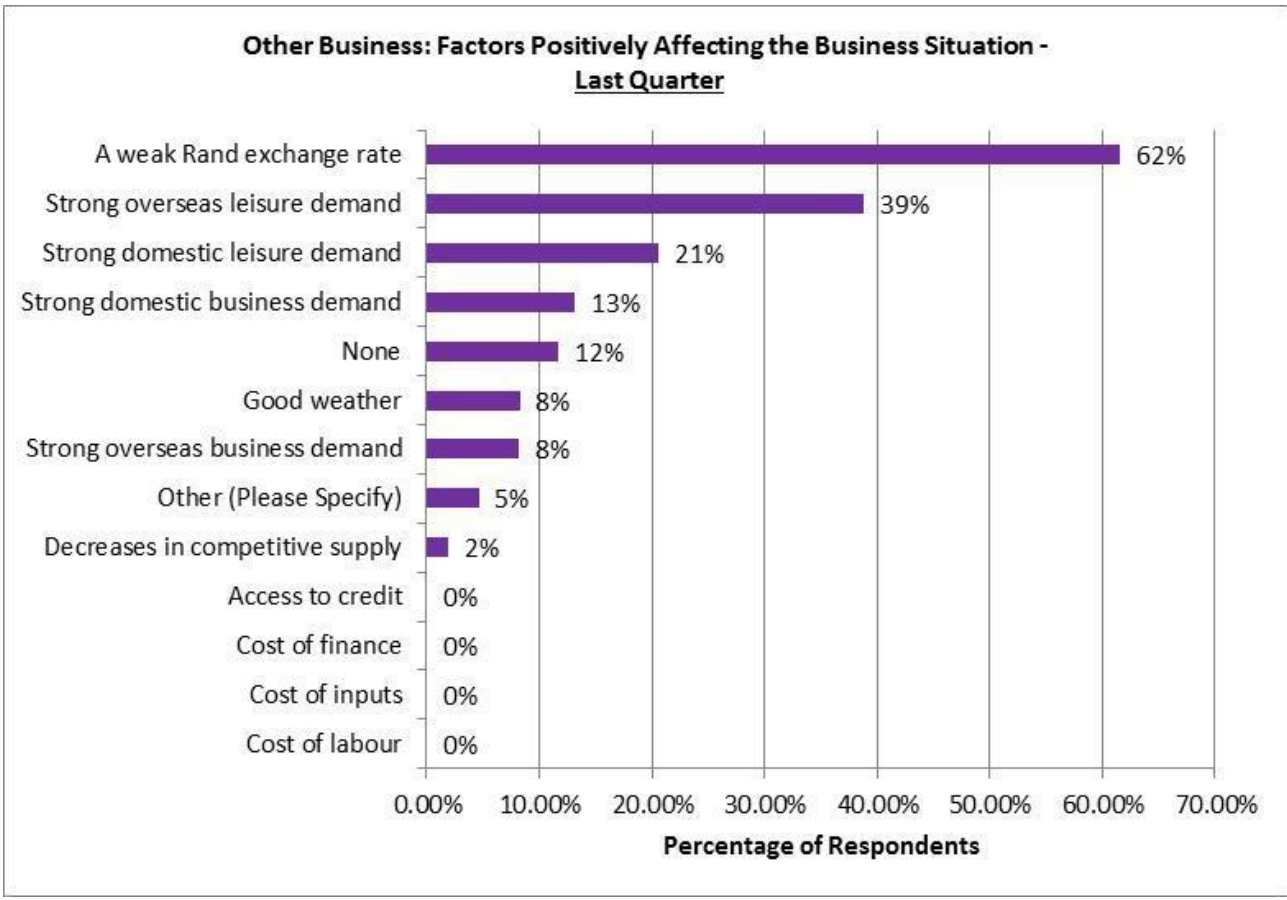
- Insufficient domestic business demand (41%) is expected to have a major negative effect on business performance for almost half of the Other Tourism Businesses.
- Additional negative contributing factors experienced last quarter not expected for next quarter last quarter include the effect of violent criminal activities.



Positive Factors – Last Quarter

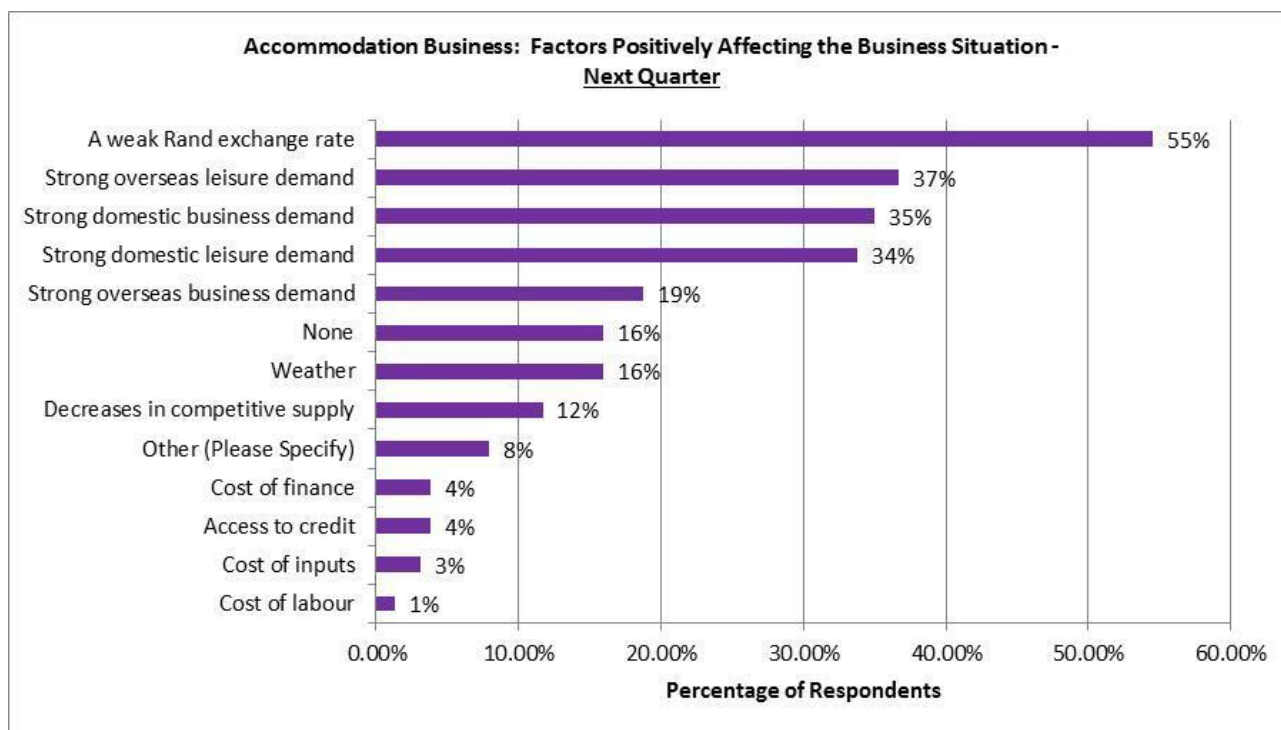
- Again, a weak exchange rate features as the main positive contributing factor with 45% and 62% for the Accommodation Sector and Other Tourism Businesses respectively.
- Notably, both the Accommodation Sector and Other Tourism Businesses follow the same pattern featuring in descending order:
 - A weak exchange rate;
 - Strong domestic leisure demand;
 - Strong overseas leisure demand;
 - Strong domestic business demand;
 - None; and
 - Good weather.
- Other cited positive contributing factors include:
 - The increases in repeat visitors;
 - Decline of fuel prices; and
 - The introduction of new tourism offerings.



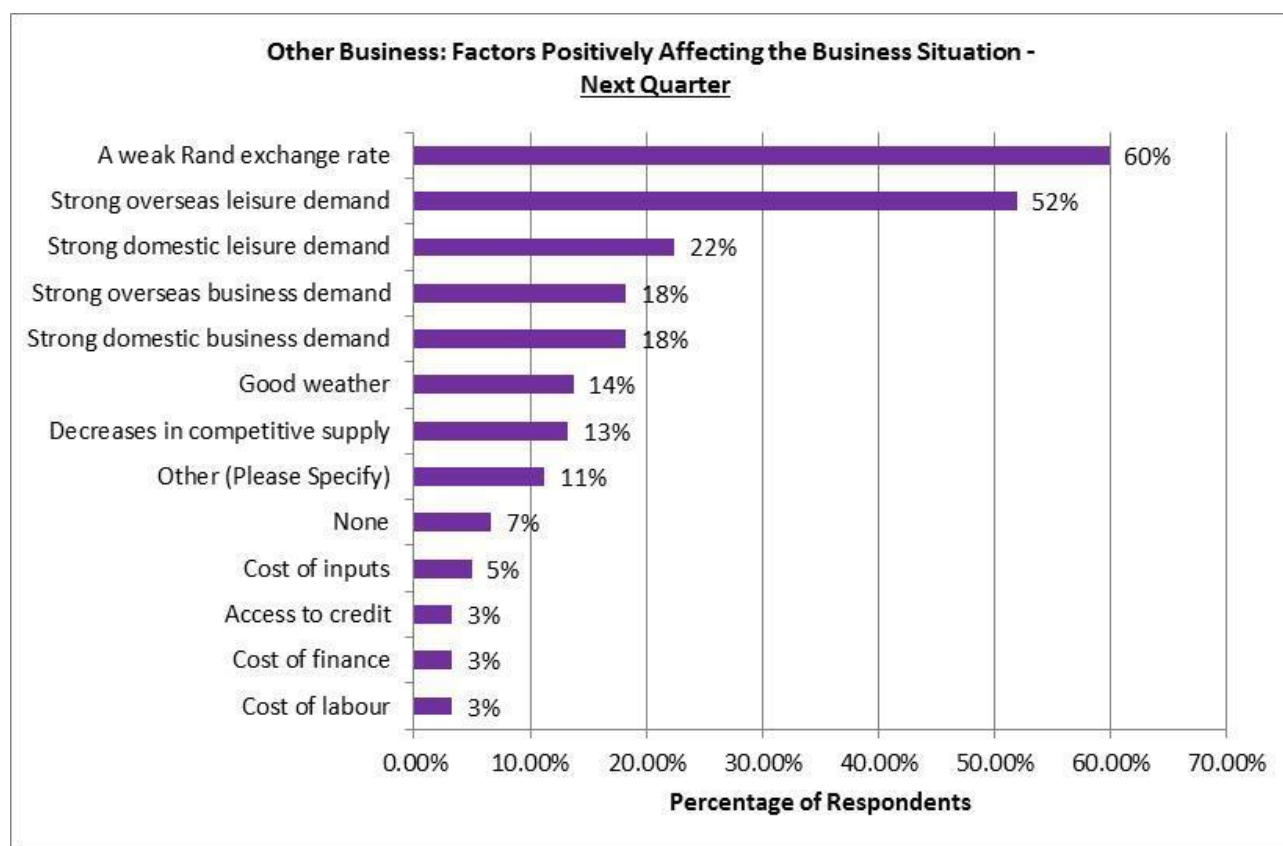


Positive Factors – Next Quarter

- The weak rand exchange rate is expected to continue to have a positive impact on most businesses in the Accommodation Sector (55%) and Other Tourism Businesses (60%) for the next quarter.
- Other positive influences include the potential eradication of Ebola, greater business demand and lower fuel prices.



- Other Tourism Businesses are expecting fairly strong demand from overseas leisure and domestic leisure with 52% and 22% respectively.



Additional Questions this Quarter

Specific to this quarter, we asked various questions relating to expectations for this year (2015).

Respondents were asked whether they expected the total number of employees this year (2015) to:

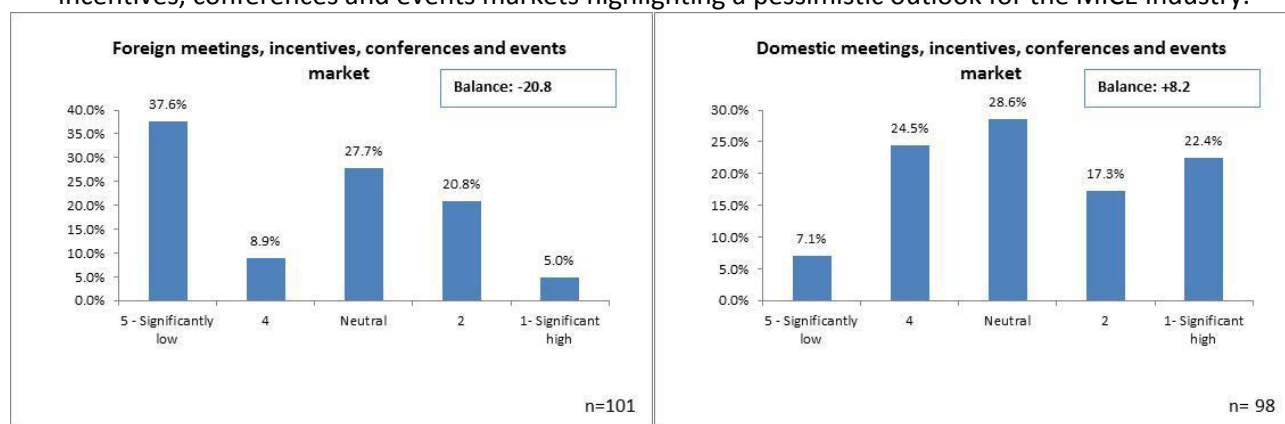
- Increase significantly;
 - Increase;
 - Remain the same;
 - Decrease; or
 - Significantly decrease.
- The majority of all respondents (79,4%) do not expect employment levels to change throughout the year; although 16,8% expect to increase levels and only 3,7% expect to decrease levels.

Respondents were asked whether they expected the capacity over this year (2015) to:

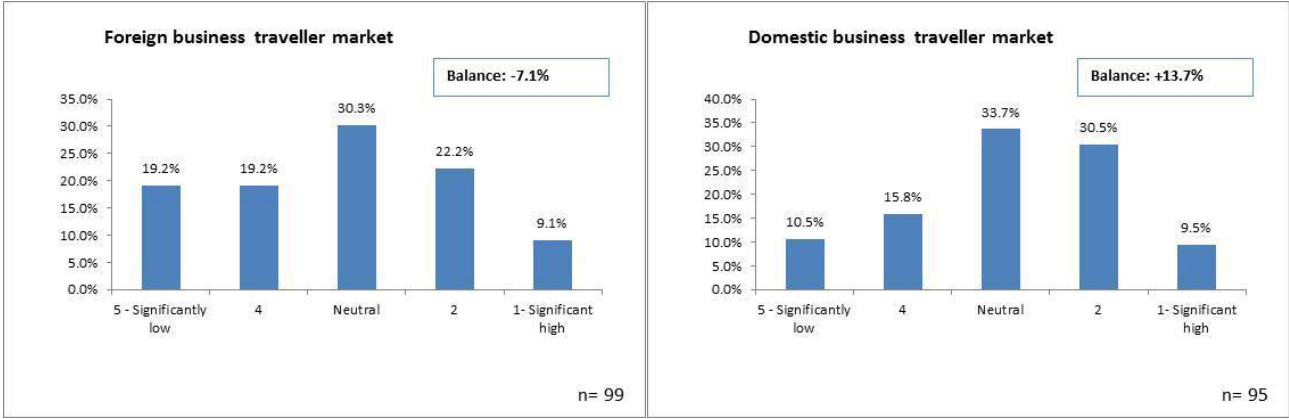
- Increase significantly;
 - Increase;
 - Remain the same;
 - Decrease; or
 - Significantly decrease.
- Again, the majority of respondents (75,9%) do not expect capacity to grow this year.

Respondents were asked to rate each markets (shown below) potential for growth (where 1 is significantly high, 3 is neutral and 5 is significantly low)

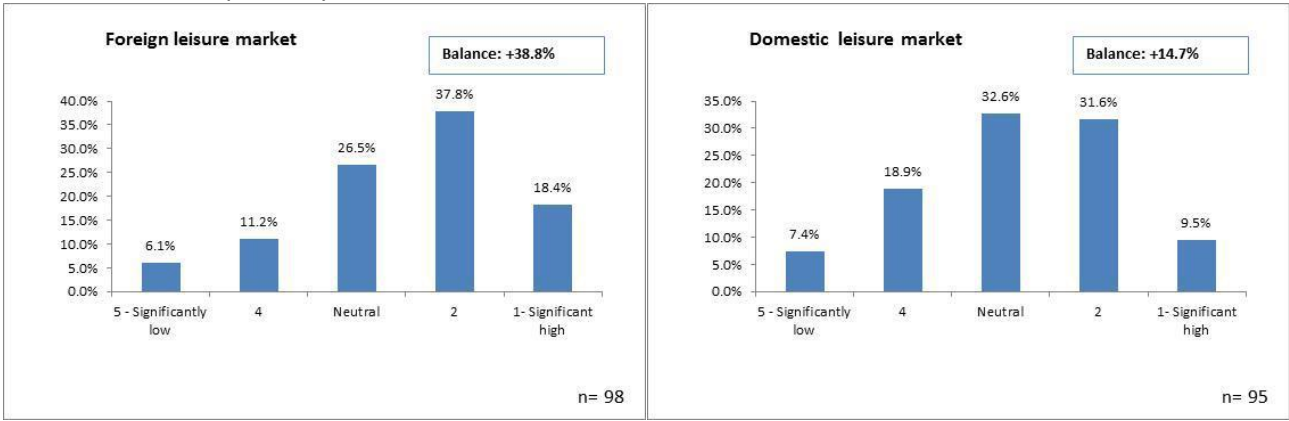
- Foreign meetings, incentives, conferences and events market;
 - Domestic meetings, incentives, conferences and events market;
 - Foreign business traveller market;
 - Domestic business traveller market;
 - Foreign leisure market;
 - Domestic leisure market; and
 - Other markets.
- Almost half of the respondents expect low and significantly low growth in foreign and domestic meetings, incentives, conferences and events markets highlighting a pessimistic outlook for the MICE industry.



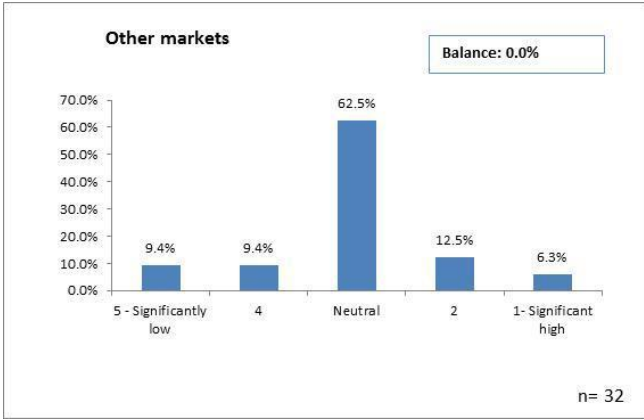
- Expectations for growth in domestic business travellers are high for a total 40% of respondents.



- The majority of respondents expect both foreign and domestic leisure markets to grow this year with 56,2% and 41,1% respectively.



- The industry remains neutral with regard to forecasting growth for other markets.



General Business Indicators

The Quarterly RMB/BER Business Confidence Index (“RMB/BER”) is shown in the table below.

	Quarter 1	Quarter 2	Quarter 3	Quarter 4
2010	43	36	47	44
2011	55	48	39	38
2012	52	41	47	46
2013	52	48	42	43
2014	41	41	46	51

Source: BER

As 50 indicates neutral levels of confidence, the index has largely been in negative territory since 2010 with exceptions in the first quarters of 2011, 2012 and 2013. This quarter, however, showed an uptick to better than normal business performance of 51 reflecting a similar level to that of the TBI for the same period.

For the rest of 2014 the Tourism Industry indicated better performance than the BER index although both indexes showed upswings as the year progressed.

The RMB/BER is a business tendency survey based on OECD methodology as is the TBCSA TBI.

The SACCI Business Confidence Index (“BCI”) is a composite indicator, as oppose to a tendency survey. The BCI is a market-related index that reflects not what business is saying, but what it is doing and experiencing. It is therefore not an opinion/perception-based index. Even though the BCI is not a tendency survey like the TBI, it is another regular and timeous indicator of economic activity to which the TBI can be compared.

The index is based on the average economic activity for 2005 being a base of 100. The index rose above 100 in 2006 reaching 119 at its highest level and stayed above 100 in the early part of 2007 and thereafter declined.

The SACCI BCI from 2011 -2014 is presented in the below table.

Year	2011											
Month	Jan	Feb	March	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
SACCI BCI	103.1	101.9	104.2	102.5	101.2	102.4	99	98.6	98.4	97.5	97.4	99.1
Quarterly Average	103.1			102.0			98.7			98.0		
Year	2012											
Month	Jan	Feb	March	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
SACCI BCI	97.1	99.5	95.7	94.3	92.8	94.9	90.9	95	91.7	92	91.7	93
Quarterly Average	97.4			94.0			92.5			92.2		
Year	2013											
Month	Jan	Feb	March	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
SACCI BCI	94.0	93.0	90.4	92.3	90.4	90.2	90.7	90.5	91.4	91.1	90.8	91.9
Quarterly Average	92.5			91.0			90.9			91.3		
Year	2014											
Month	Jan	Feb	March	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
SACCI BCI	90.5	91.9	92.7	92.6	88.9	89.7	87.9	89	89.2	88.8	90.8	88.3
Quarterly Average	91.7			90.4			88.7			89.3		

Q4

The SAACI BCI indicates a weakening general economy performance for the year, but with a very slight uptick in the last quarter. This compared to the tourism industry's somewhat better performance for the year, also generally improving towards the end of the year.