



# TOURISM BUSINESS INDEX

Mainstreaming Travel and Tourism in the South African Economy

# TBCSA Tourism Business Index

## 1st Quarter 2015 Results



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**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 Tourism Business Index

### 1. Introduction

The Tourism Business Index (“TBI”) is an initiative of the Tourism Business Council of South Africa (“TBCSA”) 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 18<sup>th</sup> 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.

**ABOUT THE TOURISM BUSINESS COUNCIL OF SOUTH AFRICA:** The Tourism Business Council of South Africa (“TBCSA”) is a member-based, private organisation. We lobby the public sector on behalf of business, facilitate specific industry programmes such as the TBI, monitor industry developments and seek to ensure that the industry is unified and speaks with **one** voice when engaging stakeholders on macro-economic issues affecting the sector.

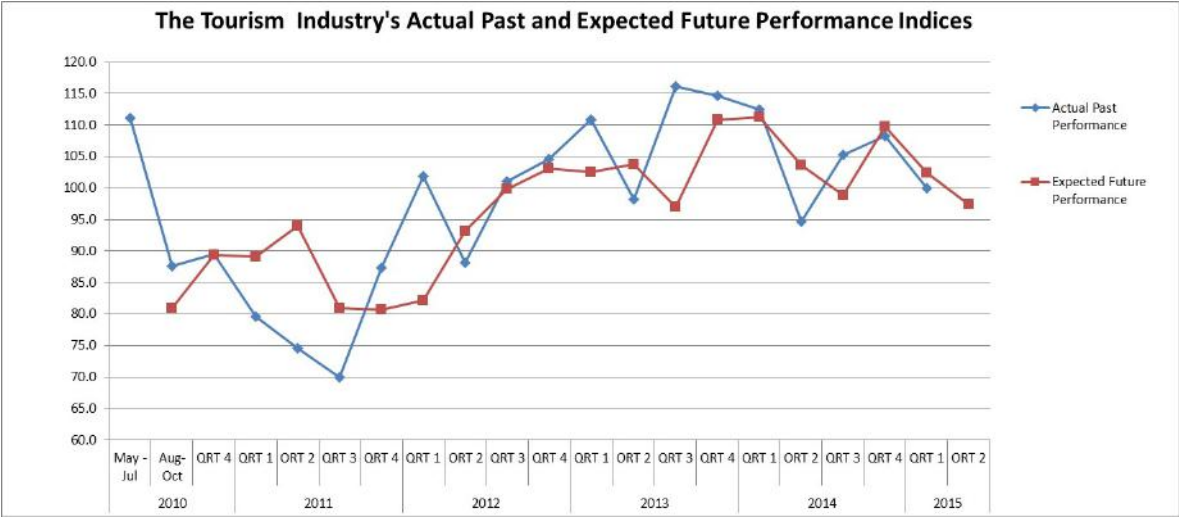
Associations affiliated to the TBCSA are: **Afrikaanse Handelsinstituut (AHI), Airlines Association of Southern Africa (AASA), Association of Southern African Travel Agents (ASATA), Board of Airline Representatives of South Africa (BARSA), Exhibition & Event Association of Southern Africa (EXSA), Federated Hospitality Association of South Africa (FEDHASA), National Accommodation Association of South Africa (NAA-SA), Professional Hunters Association of South Africa (PHASA), South African Chefs Association (SACA), Southern African Association for the Conference Industry (SAACI), Southern African Bus Operators’ Association (SABOA), Southern Africa Tourism Services Association (SATSA), Southern African Vehicle Rental Association (SAVRALA), South African Youth Travel Confederation (SAYTC), Vacation Ownership Association of South Africa (VOASA),**

**ABOUT GRANT THORNTON SOUTH AFRICA:** Grant Thornton South Africa is a member firm of Grant Thornton International. We are leaders in our chosen markets, providing assurance, tax and specialist business advice to dynamic organisations – listed companies, large privately held businesses and the public sector. One of our global industry sector specialisations is hospitality and tourism and the South African firm is a leader in this arena with more than 25 years of experience delivering professional services to these industries. Grant Thornton was a founder member of the TBCSA.

# TBCSA Tourism Business Index

## 2. The Tourism Business Index

### 2.1 The Consolidated Index



- Overall, the Tourism Industry performed basically at a normal level recording an index of 99,9 for Q1 2015 only slightly lower than the forecast 102,4. Business performance next quarter reflects a slightly more pessimistic outlook recording a just below normal level of 97,3.

### 2.2 The Accommodation Index

- When delving into the detail for this past quarter, the Accommodation Sector experienced better than normal business performance (110,2 compared to the forecast 101,9) whereas Other Tourism Businesses performed somewhat less than normal at 92,1 compared to the forecast 102,7.
- The Accommodation Sector remains neutral on outlook; expecting almost normal business performance for Q2 2015 (102,7).

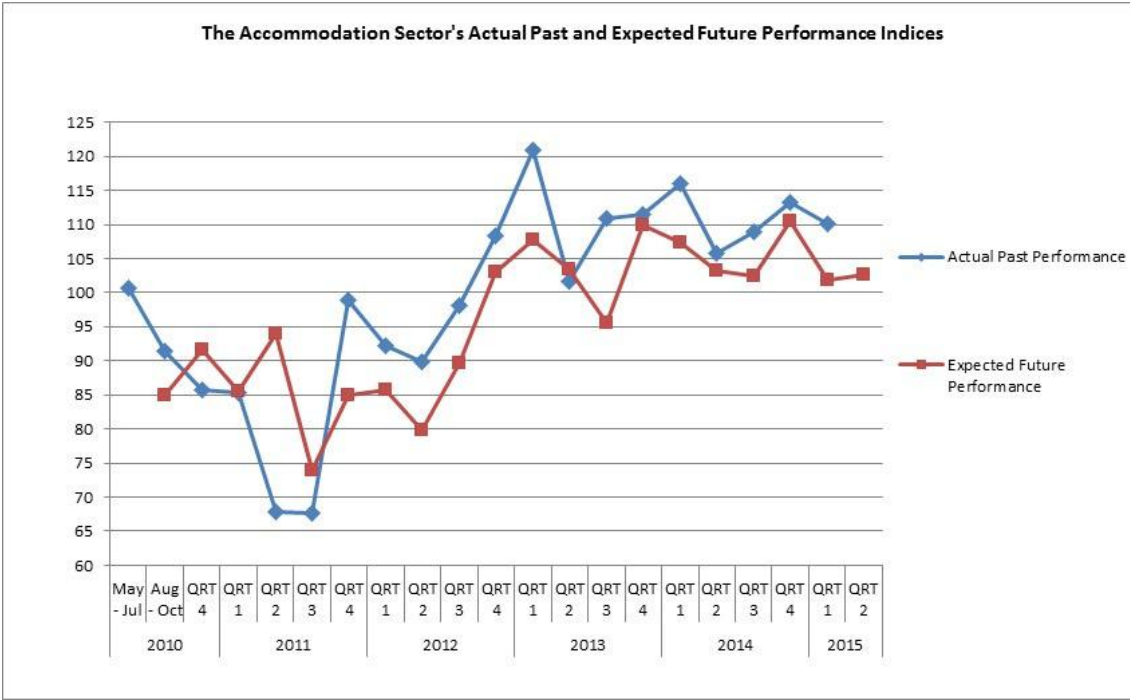
#### What is Normal?

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.

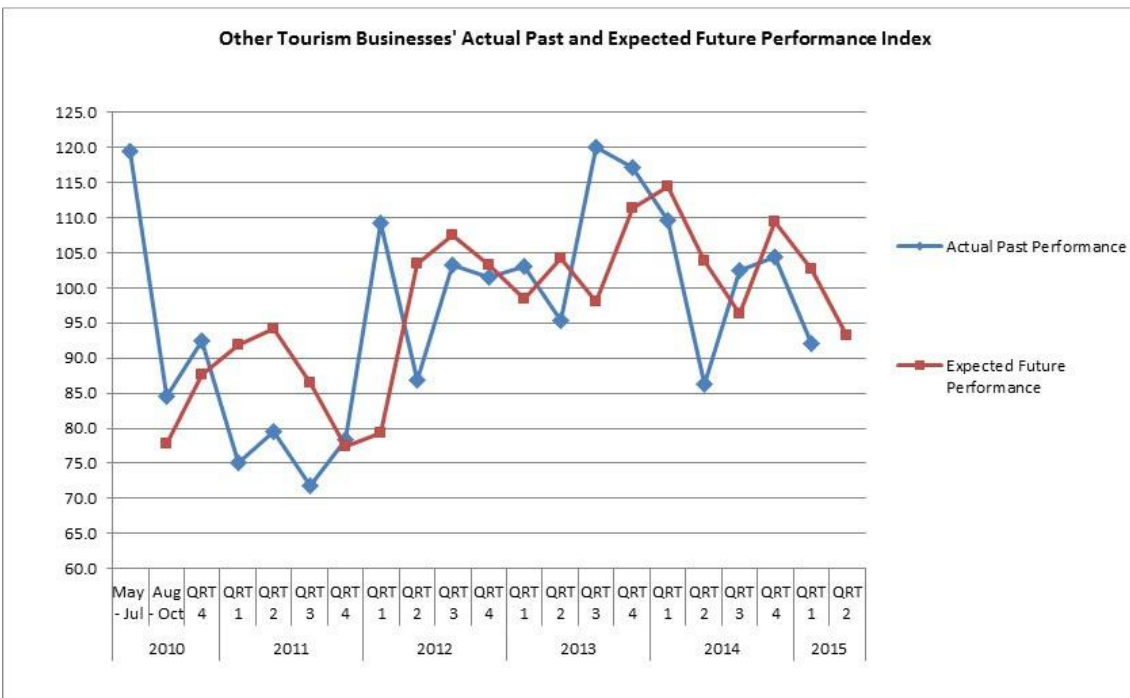
**Accommodation Index**



**2.3 Other Tourism Businesses Sub-Index**

Other Tourism Businesses forecast an ongoing somewhat lower than normal business performance for Q2 2015, with an index of 93,2 similar to the 92,1 actual of the last quarter.

**Other Tourism Business Sub Index**



## 2.4 TBI Summary

		Overall		Accommodation		Other	
		Actual	Forecast	Actual	Forecast	Actual	Forecast
<b>2011</b>	1 <sup>st</sup> Quarter	79.6	89.1	85.3	85.5	75.1	91.9
	2 <sup>nd</sup> Quarter	74.5	94.1	67.8	94.0	79.6	94.1
	3 <sup>rd</sup> Quarter	70.0	81.0	67.7	73.9	71.8	86.4
	4 <sup>th</sup> Quarter	87.3	80.7	98.9	84.9	78.3	77.4
<b>2012</b>	1 <sup>st</sup> Quarter	101.9	82.2	92.2	85.8	109.3	79.4
	2 <sup>nd</sup> Quarter	88.2	93.2	89.9	79.8	86.9	103.5
	3 <sup>rd</sup> Quarter	101.0	99.8	98.1	89.6	103.3	107.6
	4 <sup>th</sup> Quarter	104.6	103.1	108.4	103.1	101.6	103.2
<b>2013</b>	1 <sup>st</sup> Quarter	110.8	102.5	120.9	107.8	103.1	98.4
	2 <sup>nd</sup> Quarter	98.2	103.8	101.7	103.4	95.4	104.2
	3 <sup>rd</sup> Quarter	116.1	97.0	110.8	95.5	120.0	98.1
	4 <sup>th</sup> Quarter	114.6	110.8	111.4	110.0	117.2	111.4
<b>2014</b>	1 <sup>st</sup> Quarter	112.4	111.3	116.1	107.3	109.6	114.4
	2 <sup>nd</sup> Quarter	94.7	103.6	105.8	103.2	86.2	103.8
	3 <sup>rd</sup> Quarter	105.3	98.9	108.9	102.4	102.5	96.3
	4 <sup>th</sup> Quarter	108.3	109.8	113.3	110.4	104.4	109.4
<b>2015</b>	1 <sup>st</sup> Quarter	99.9	102.4	110.2	101.9	92.1	102.7
	2 <sup>nd</sup> Quarter		97.3		102.7		93.2

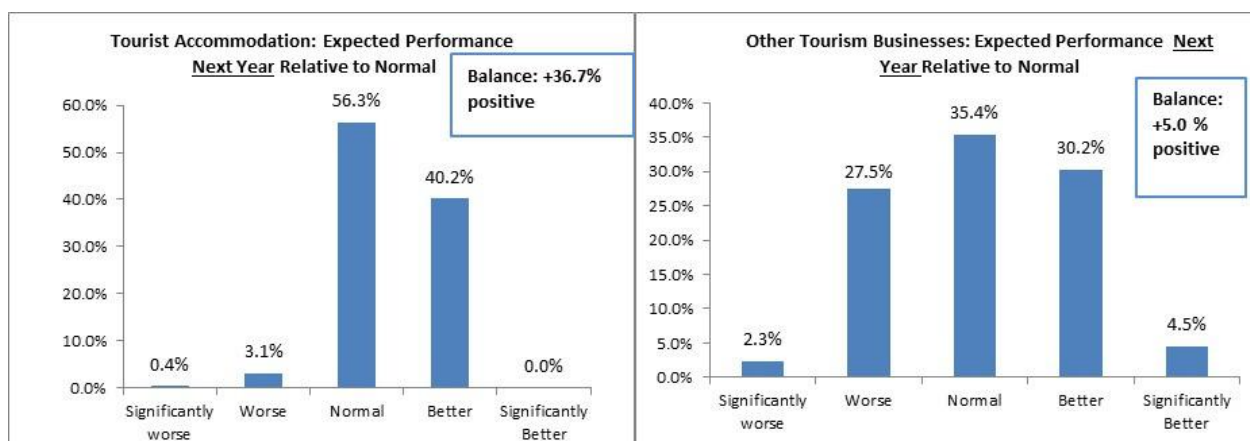
### 3. Balance Statistics

#### 3.1 Performance for the Next Year

When looking at expected performance for the next year, the Accommodation Sector records a strong balance statistic of +36,7% with only 3,5% of respondents expecting less than normal business performance next year and 40,2% of respondents expecting better than normal business performance –similar strong optimism was only seen once before in Q1 2014. Other Tourism Businesses on the other hand are less optimistic about the future with a balance statistic of +5,0% with 27,5% of respondents expecting less than normal business performance and 30,2% of respondents expecting better than normal business performance. This weaker outlook amongst other tourism businesses has not been recorded since 2011 indicating a turn towards a somewhat more pessimistic outlook for the future.

#### 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.

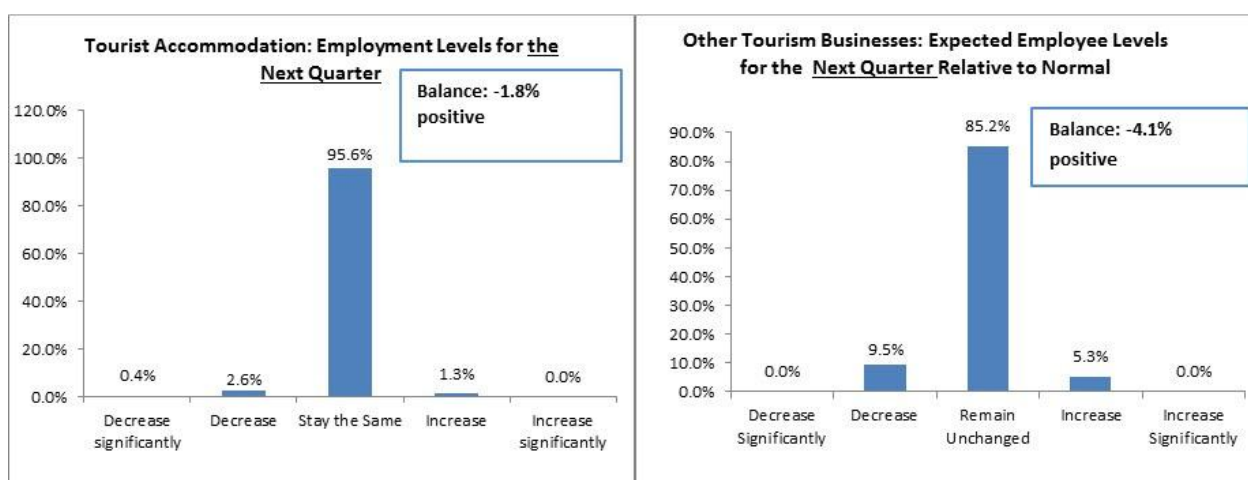


### Summary of the Next Year Balance Statistic

		Accommodation Sector	Other Sector
2011	1 <sup>st</sup> Quarter	-27.7%	+13%
	2 <sup>nd</sup> Quarter	-40.2%	-5.4%
	3 <sup>rd</sup> Quarter	-70.3%	-3.2%
	4 <sup>th</sup> Quarter	-53.0%	-16.9%
2012	1 <sup>st</sup> Quarter	-24.5%	+17.2%
	2 <sup>nd</sup> Quarter	-11.7%	+15.3%
	3 <sup>rd</sup> Quarter	-3.8%	+10.5%
	4 <sup>th</sup> Quarter	-0.6%	+37.6%
2013	1 <sup>st</sup> Quarter	+13.1%	+29.7%
	2 <sup>nd</sup> Quarter	-12.7%	+15.2%
	3 <sup>rd</sup> Quarter	-13.6%	+34.5%
	4 <sup>th</sup> Quarter	-22.4%	+28.4%
2014	1 <sup>st</sup> Quarter	+34.2%	+47.3%
	2 <sup>nd</sup> Quarter	+5.1%	+20.0%
	3 <sup>rd</sup> Quarter	0.0%	+15.5%
	4 <sup>th</sup> Quarter	-6.3%	+19.2%
2015	1 <sup>st</sup> Quarter	+36,7%	+5,0%

### 3.2 Employment Levels Next Quarter

Overall employment levels for next quarter are expected to remain the same with slight negative employment balances in both indexes. The Accommodation Sector recorded a balance statistic of -1,8% with 3% of respondents expecting to decrease employment levels compared to 1,3% expecting to increase employment levels. Other Tourism Businesses recorded a balance statistic of -4,1% with 9,5% of respondents expecting to decrease employment levels compared to 5,3% expecting to increase employment levels. Notably, this is the first low / negative balance statistic recorded since Q4 2012.



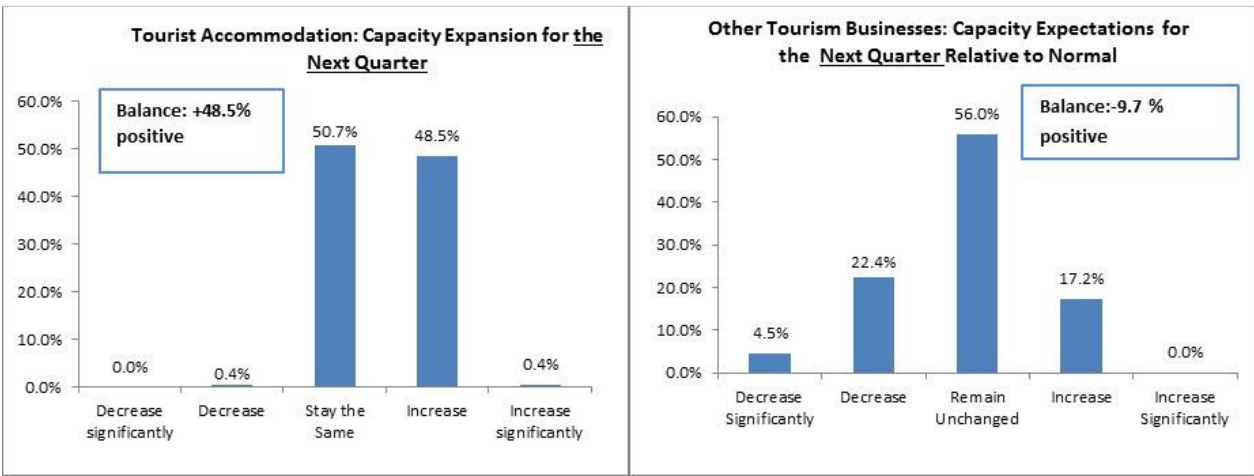


**Summary of the Employment Balance Statistic Historical Results**

		Accommodation Sector	Other Sector
2011	1 <sup>st</sup> Quarter	-23.7%	-28.9%
	2 <sup>nd</sup> Quarter	-25.3%	-12.3%
	3 <sup>rd</sup> Quarter	-17.4%	+1.8%
	4 <sup>th</sup> Quarter	-15.4%	+1.6%
2012	1 <sup>st</sup> Quarter	-17.3%	-3.0%
	2 <sup>nd</sup> Quarter	-3.9%	+7.4%
	3 <sup>rd</sup> Quarter	+ 6.4%	-0.6%
	4 <sup>th</sup> Quarter	+5.3%	-8.3%
2013	1 <sup>st</sup> Quarter	+0.9%	+12.5%
	2 <sup>nd</sup> Quarter	-0.2%	0.0%
	3 <sup>rd</sup> Quarter	+8.7%	+10.9%
	4 <sup>th</sup> Quarter	-19.4%	+8.8%
2014	1 <sup>st</sup> Quarter	-49.7%	+12.1%
	2 <sup>nd</sup> Quarter	+2.8%	+8.6%
	3 <sup>rd</sup> Quarter	-4.5%	+15.3%
	4 <sup>th</sup> Quarter	+35,3%	+7.5%
2015	1 <sup>st</sup> Quarter	-1.8%	-4.1%

**3.3 Capacity Growth Expectations**

When looking at capacity expansion for next quarter, the Accommodation Sector remains positive recording a strong positive balance statistic of +48,5% with 0,4% of respondents expecting to decrease capacity compared to 48,9% of respondents expecting to increase capacity. Other Tourism Businesses on the other hand, expect a negative balance statistic of -9,7% ending their very positive outlook which has lasted since Q2 2011.



**Summary of the Capacity Growth Balance Statistic Historical Results**

		<b>Accommodation Sector</b>	<b>Other Sector</b>
<b>2011</b>	1 <sup>st</sup> Quarter	+14.3%	-11.1%
	2 <sup>nd</sup> Quarter	+12.6%	+9.3%
	3 <sup>rd</sup> Quarter	+9.6%	+24.8%
	4 <sup>th</sup> Quarter	-3.3%	+21.0%
<b>2012</b>	1 <sup>st</sup> Quarter	+7.4%	+20.7%
	2 <sup>nd</sup> Quarter	+25.6%	+7.2%
	3 <sup>rd</sup> Quarter	+22.5%	+30.3%
	4 <sup>th</sup> Quarter	+11.1%	+26.1%
<b>2013</b>	1 <sup>st</sup> Quarter	+2.0%	+15.5%
	2 <sup>nd</sup> Quarter	-15.6%	+22.4%
	3 <sup>rd</sup> Quarter	+14.1%	+27.4%
	4 <sup>th</sup> Quarter	+5.4%	+40.7%
<b>2014</b>	1 <sup>st</sup> Quarter	+37.5%	+22.1%
	2 <sup>nd</sup> Quarter	+7.1%	+17.7%
	3 <sup>rd</sup> Quarter	+3.9%	+26.3%
	4 <sup>th</sup> Quarter	+61.6%	+18.6%
<b>2015</b>	1 <sup>st</sup> Quarter	+48.5%	-9.7%

#### 4. Factors Affecting Business Conditions

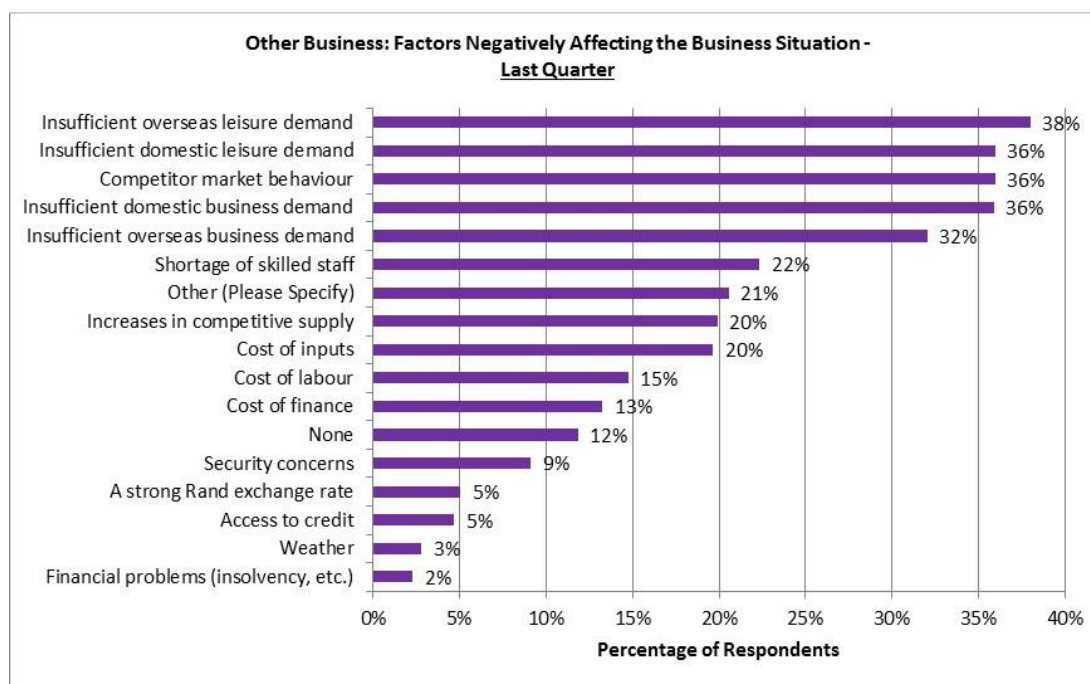
With regard to the performance of the Tourism Industry, the TBI considers both positive and negative factors which possibly have an impact on the performance of the industry.

##### 4.1 Negative Factors – Last Quarter

- Cost of inputs still remains the greatest negative contributing factor to business performance for the Accommodation Sector (the 11<sup>th</sup> consecutive time) with 42% of respondents citing it.
- Insufficient overseas leisure demand continues to be prominent with 29% of respondents citing it as a negative contributing factor, but quite a lot lower than the percentage recorded last quarter, 40%.
- Other cited negative contributing factors include:
  - Water and power interruptions;
  - Increased rates and taxes;
  - The Ebola virus;
  - Increased cost of travel due to tolls and price of fuel;
  - Visa restrictions;
  - The poor economic outlook;
  - Union strikes; and
  - Negative publicity on online websites.

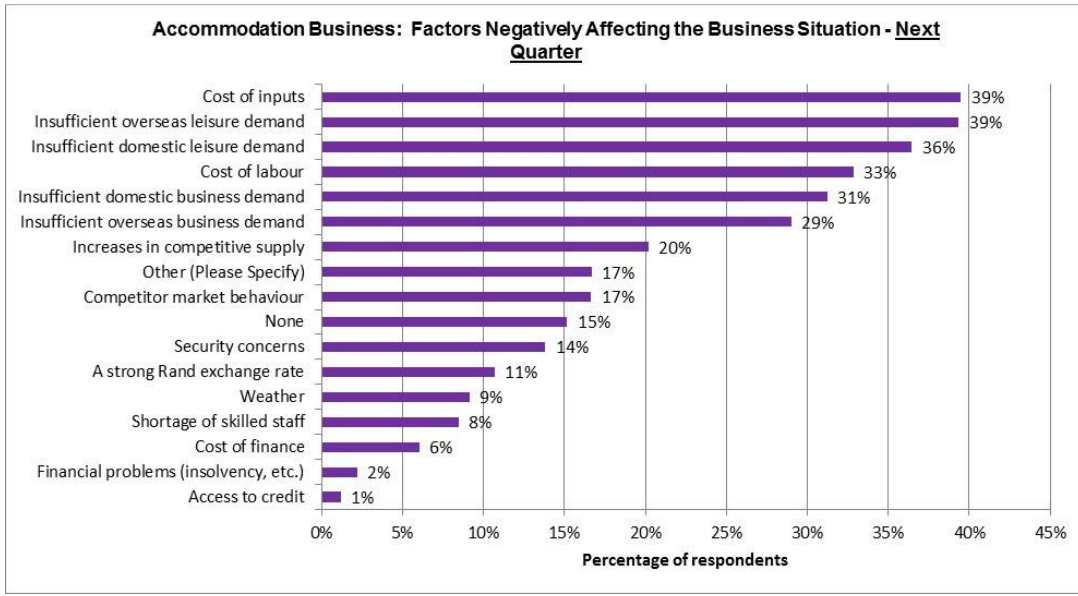


- With regard to Other Tourism Businesses, insufficient overseas leisure demand (38%) and insufficient domestic leisure demand (36%) were more prominent this last quarter compared to prior quarters and featured as the most cited contributing factors. In addition to this, competitor market behaviour (36%) and insufficient domestic business demand (36%) still continue to strain business performance.
- Other cited negative contributing factors include:
  - Fires around the Cape Peninsula;
  - The Ebola virus and perceptions thereof;
  - Visa restrictions; and
  - Lowered international business confidence.

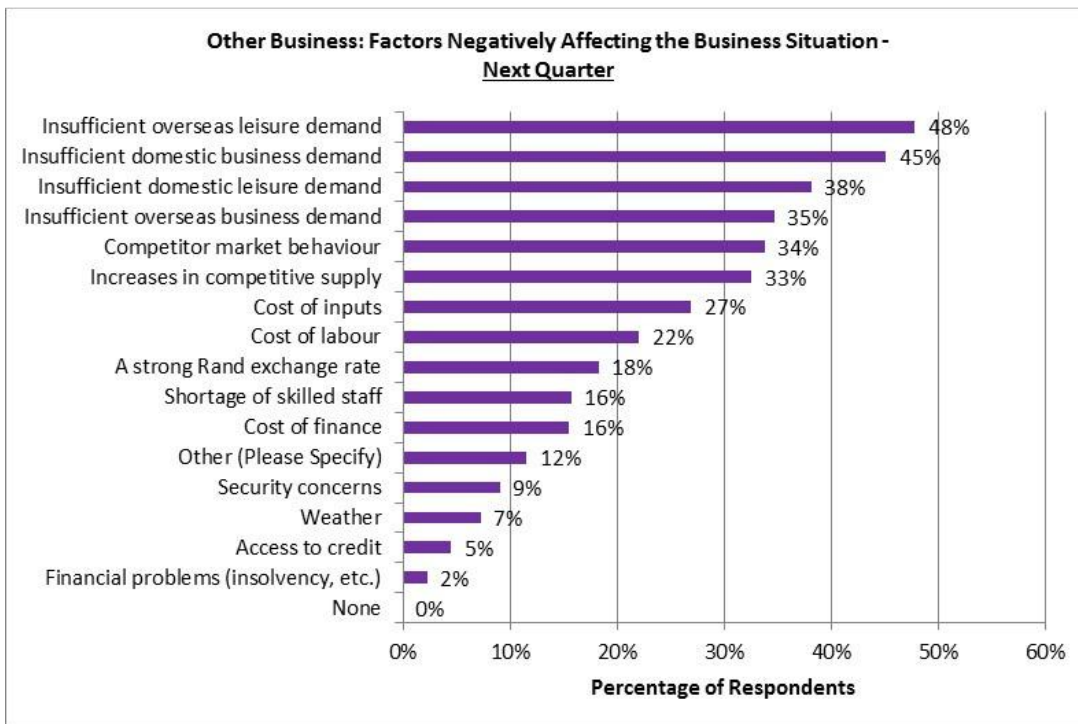


#### 4.2 Negative Factors – Next Quarter

- The Accommodation Sector expects cost of inputs (39%) and insufficient overseas leisure demand (39%) to continue to be negative contributing factors on business performance. Insufficient domestic leisure demand (36%) and cost of labour (33%) are expected to feature more prominently next quarter.
- Similar to last quarter expected negative contributing factors include:
  - Water and power interruptions;
  - The Ebola virus;
  - Increased cost of travel due to tolls and price of fuel;
  - Visa restrictions; and
  - Union strikes.

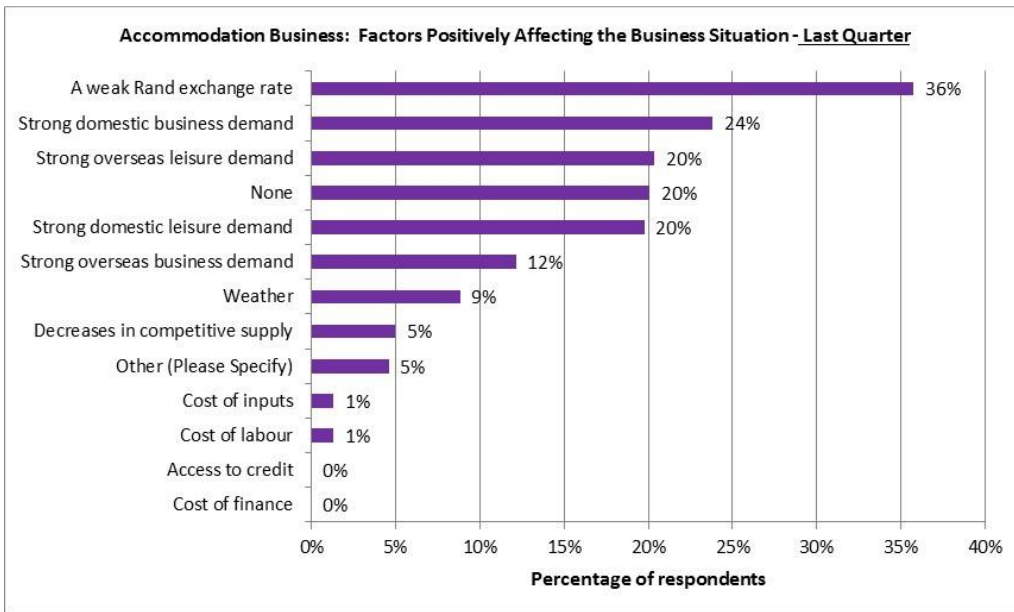


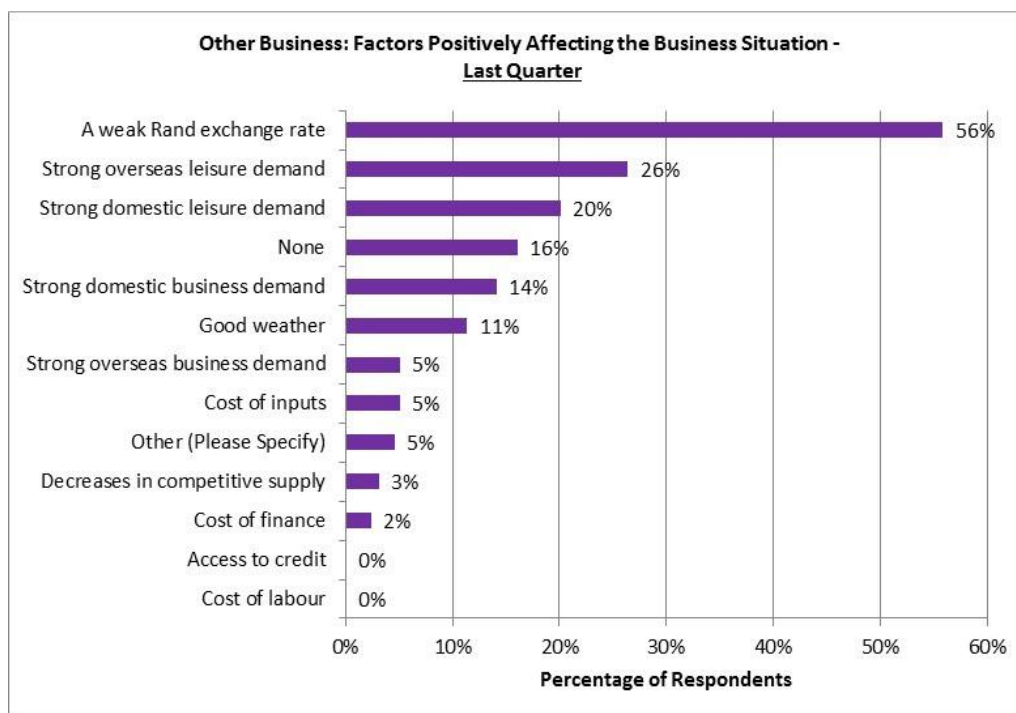
- The negative outlook for Other Tourism Businesses reflect strongly with regard to their expectations for next quarter with insufficient overseas leisure demand (48%), insufficient domestic business demand (45%), insufficient domestic leisure demand (38%), insufficient overseas business demand (35%), competitor market behaviour (34%) and increases in competitive supply (33%) all affecting from a third to almost half of businesses .
- Similar to last quarter additional negative contributing factors expected include:
  - The Ebola virus and perceptions thereof;
  - Visa restrictions; and
  - Lowered international business confidence.



**4.3 Positive Factors – Last Quarter**

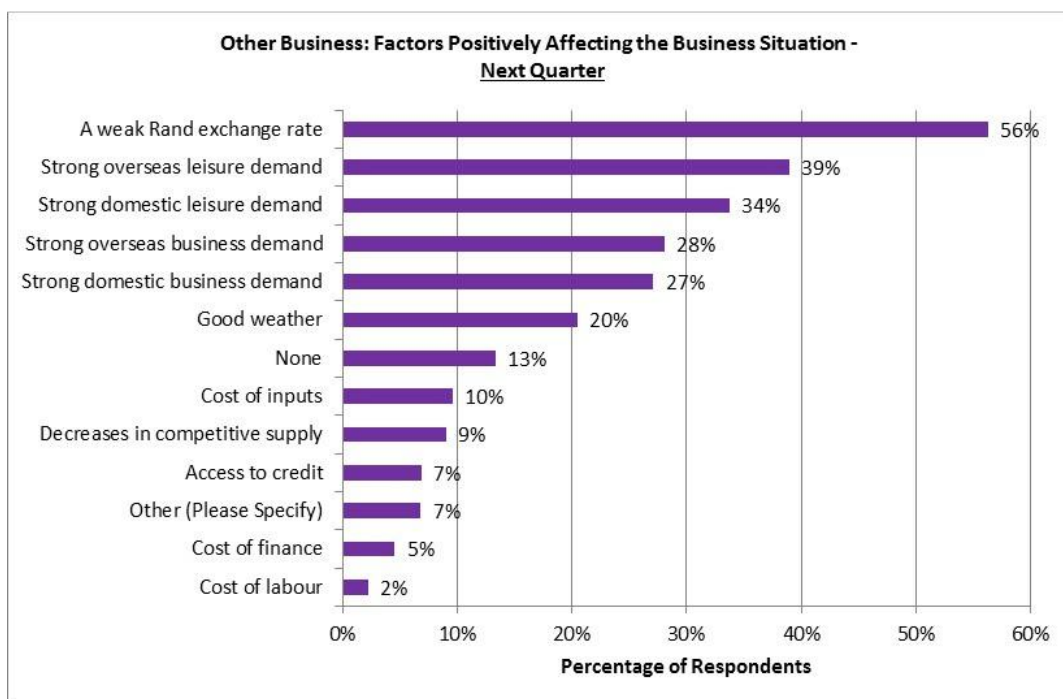
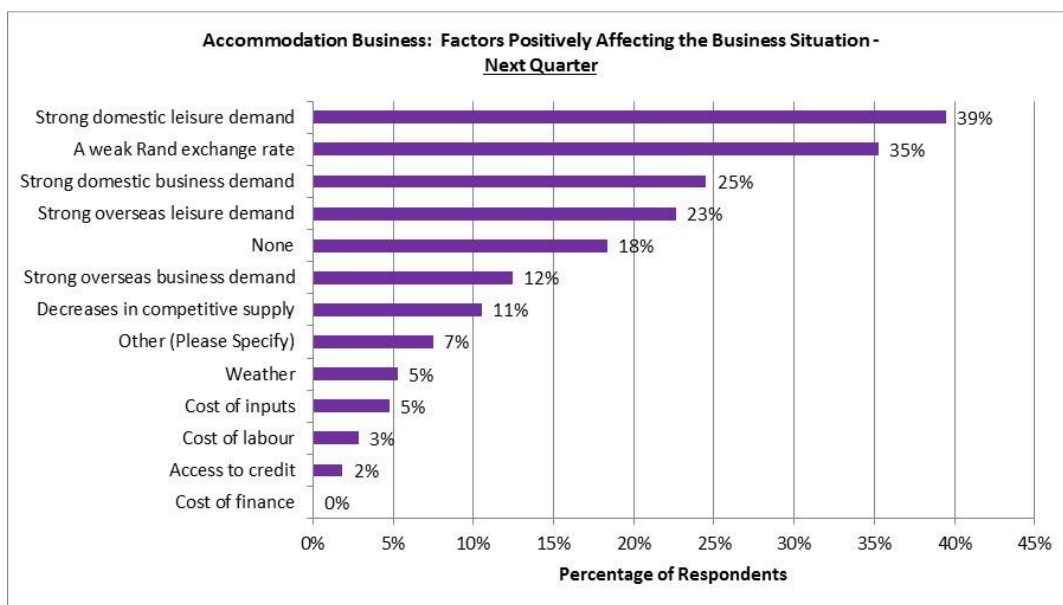
- A weak exchange rate continues to feature as the main positive contributing factor with 36% and 56% for the Accommodation Sector and Other Tourism Businesses respectively. Very few other positive factors figure and only strong overseas leisure demand for Other Businesses tops more than a quarter of respondents seeing it this as a positive factor.
- Other cited positive contributing factors include:
  - Strong internal marketing strategies; and
  - The lower cost of fuel.





#### 4.4 Positive Factors – Next Quarter

- More of the Accommodation Sector remain optimistic and expect strong domestic leisure demand (39%). While not cited by major levels of respondents, strong demand across all major segments ranges from 12% to 39%.
- A weak exchange rate is expected to continue to have a positive impact on most businesses with the Accommodation Sector 35% of all respondents and 56% of Other Tourism Businesses respondents citing this factor.
- Additional positive contributing factors cited include improved security, refurbishments and improved marketing.

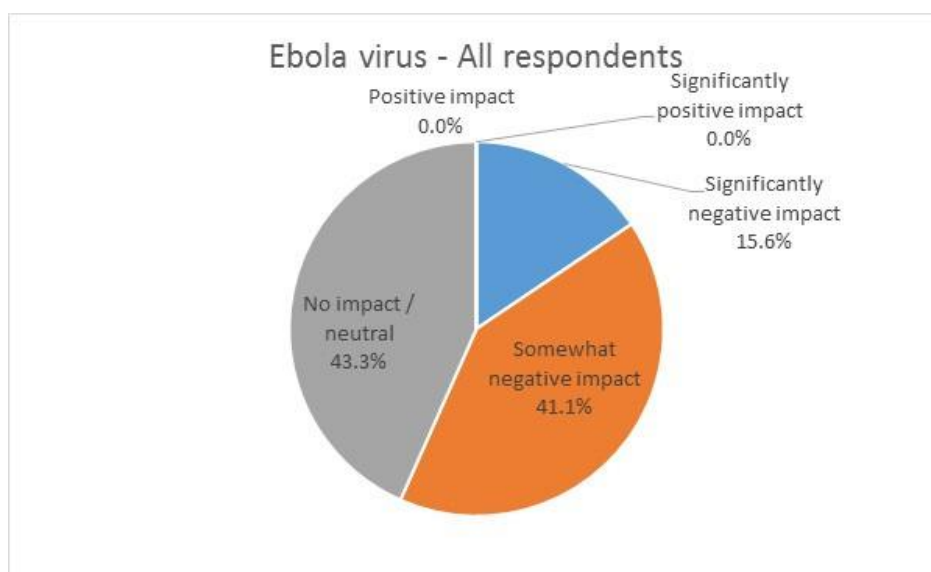


## 5. Additional Questions – Ebola and Visas/Birth certificates

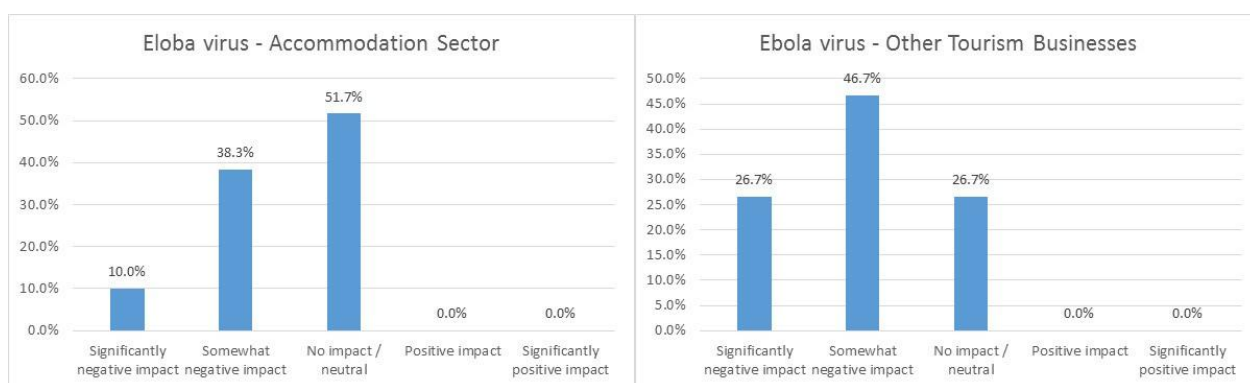
*Respondents were asked what level of impact, if any, the Ebola outbreak has had on their business in the last year. The outcome is as follows:*

- More than half (56,7%) of the Tourism Industry have experienced some sort of negative impact as a result of the Ebola virus.





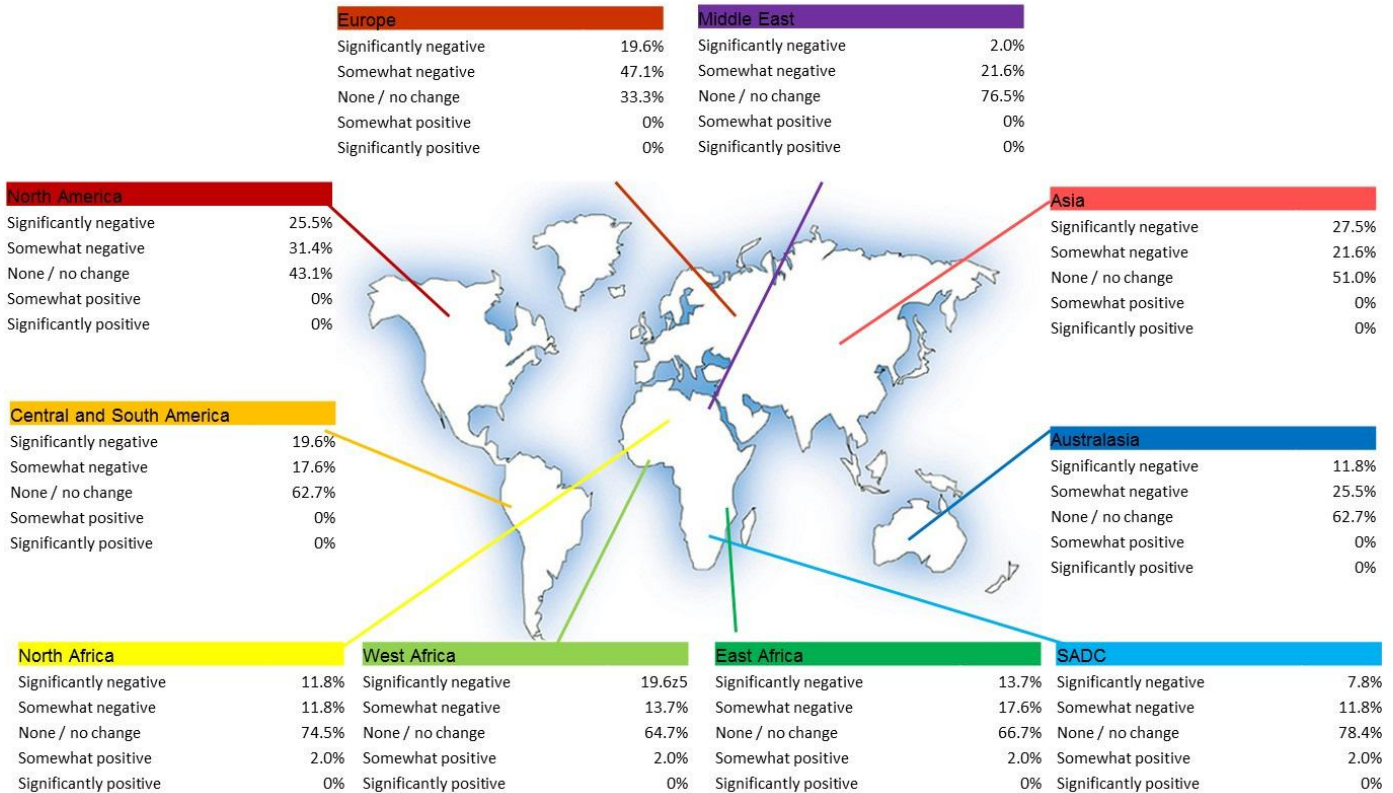
- Other Tourism Businesses are more susceptible to the effects of the Ebola virus with 73,3% experiencing negative impacts compared to the 48,3% of respondents for the Accommodation Sector citing the same.



Respondents were asked which best describes the change in tourism numbers, due to the Ebola crisis (reference to the above question), for each of the below regions in the last year?

- The figure below provides an illustration of the respondents who have experienced an impact, whether positive or negative, as a result of the Ebola virus:

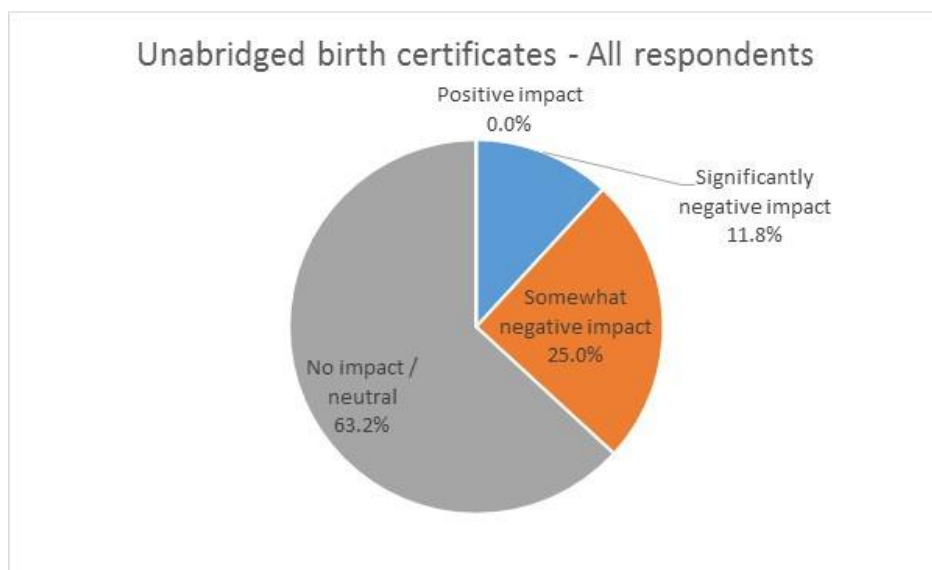
**Ebola virus impact by region**



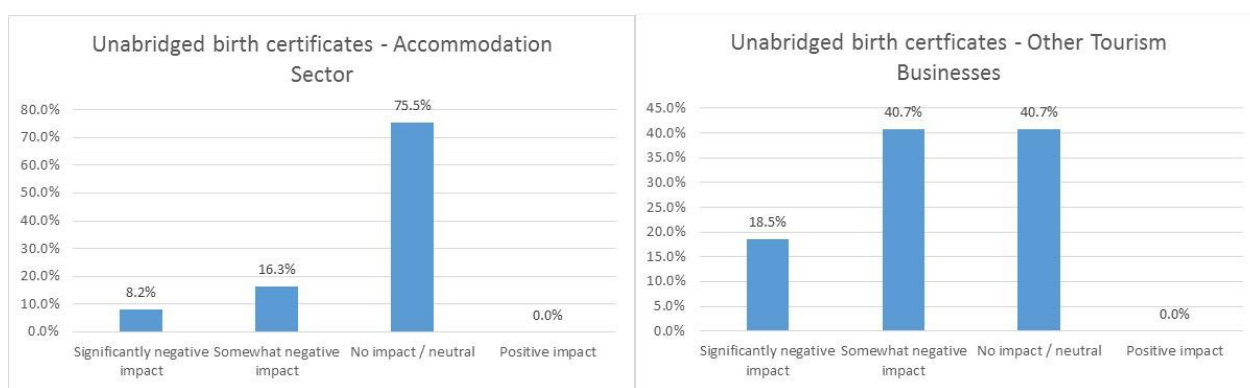
- Major markets negatively affected shown in the above illustration tend to be Europe and North America with 66,7% and 56,9% respectively citing a decline in tourism numbers from these regions due to the Ebola virus.
- Additional comments cited include: No PR done to rectify the negative perception of the Ebola virus in Africa, including South Africa, and the ignorance of people unaware of the proximity of South Africa from the affected countries.

Respondents were asked whether the pending requirement (albeit changing in timetable and specifics) for children to carry unabridged birth certificates had a direct impact on their business

- 37% of respondents have experienced an impact as a result of the pending introduction of the unabridged birth certificates.

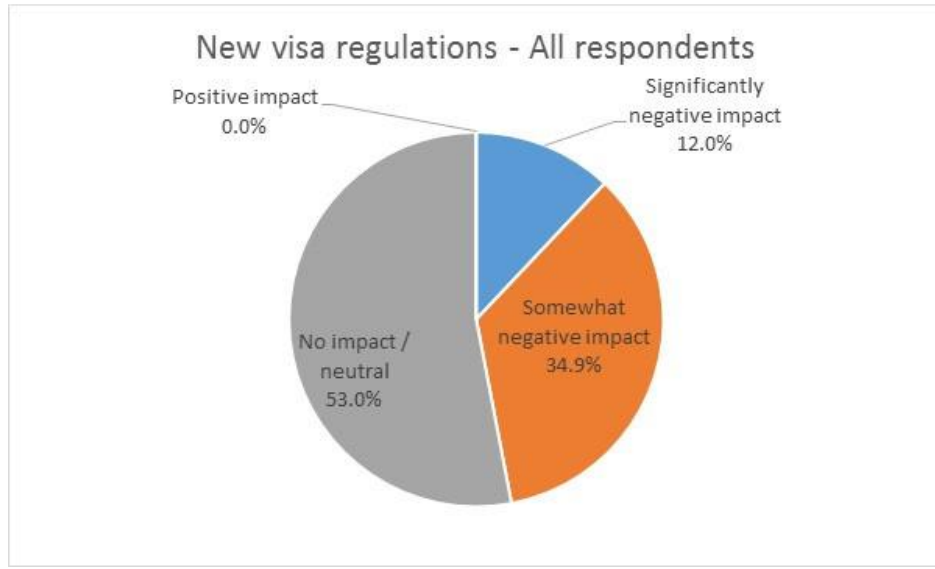


- Other Tourism Businesses (59,3% of respondents) prove to be more prone to the negative impact of the unabridged birth certificates compared to the Accommodation Sector (24,5% of respondents).

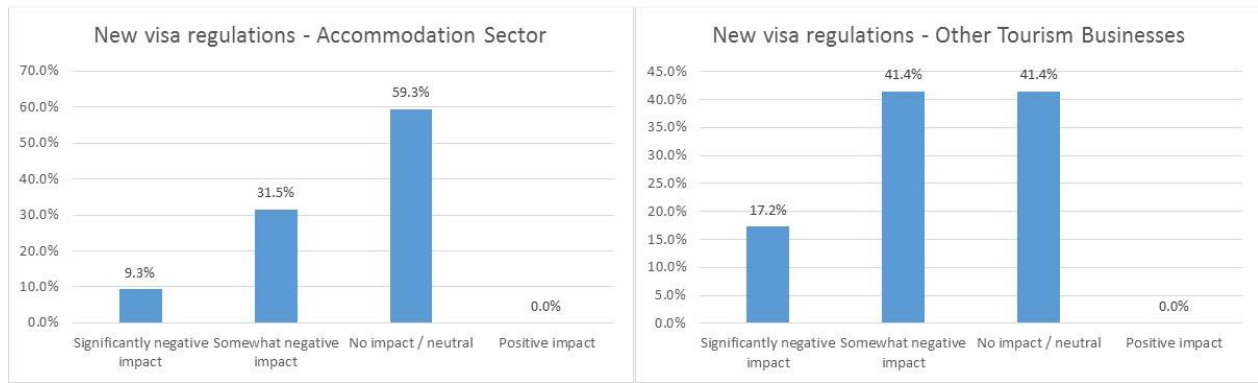


Respondents were asked whether the requirement for biometric visas / presentation in person at embassies / consulates had a direct impact on their business

- 47% of respondents, almost half, have experienced a negative impact due to the new visa regulations.



- Again, Other Tourism Businesses (58,6%) cite greater negative impacts compared to the Accommodation Sector (40,7%).



## 6. 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
2015	49			

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 and quarter 4 2014. This quarter, however, showed a slight dip in the index to just below almost normal business performance with 49 reflecting a slightly worse level to that of the TBI for the same period.

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 -2015 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		
Year	2015											
Month	Jan	Feb	March	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
SACCI BCI	89.3	92.8	89.1									
Quarterly Average	90.4											

Q1

The SACCI BCI shows a steady average increase since Q3 2014 mirroring the TBI with the exception of this quarter (where the TBI showed a slight decline whereas the SACCI BCI experienced a slight uptick compared to the previous quarter). Notably, the average quarterly index has remained below 100 since Q3 2011.

At the time of this report reporting by Smith Travel Research in terms of occupancies and RevPar for the quarter in question were not available.