



# TOURISM BUSINESS INDEX

Mainstreaming Travel and Tourism in the South African Economy

# TBCSA Tourism Business Index 4th Quarter 2015



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## 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 each 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”

**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.

#### 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.

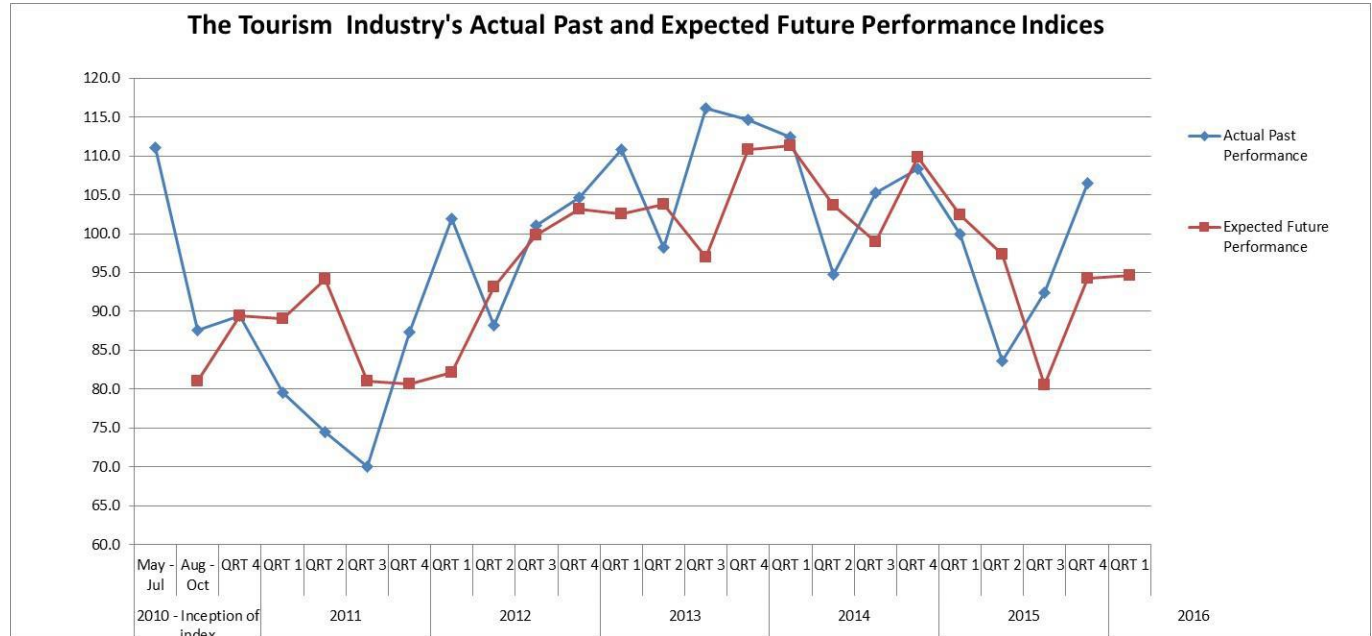
Associations affiliated to the TBCSA are: **Afrikaanse Handelsinstituut (AHI), Airlines Association of Southern Africa (AASA), Association of Southern African Travel Agents (ASATA), Board of Airline Representatives of South Africa (BARSA), Exhibition & Event Association of Southern Africa (EXSA), Federated 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 experienced above normal business levels recording an index of 106,5 compared to the anticipated more subdued 94,2 for Q4 2015. This is the only quarter in 2015 to achieve above normal business levels although quarter one was at normal level.
- Anticipated business performance next quarter is slightly below normal business levels at 94,6 and at similar levels to the last quarter outlook, and a drop from the actuals of last quarter, reflecting a somewhat more pessimistic outlook for Q1 2016.

### 2.2 The Accommodation Index

- Business performance for Q4 2015 was almost as expected at 104,4 compared to the anticipated 102,0.
- The Accommodation Sector forecasts that business performance will remain at normal levels next quarter recording a 100,8 expectation.

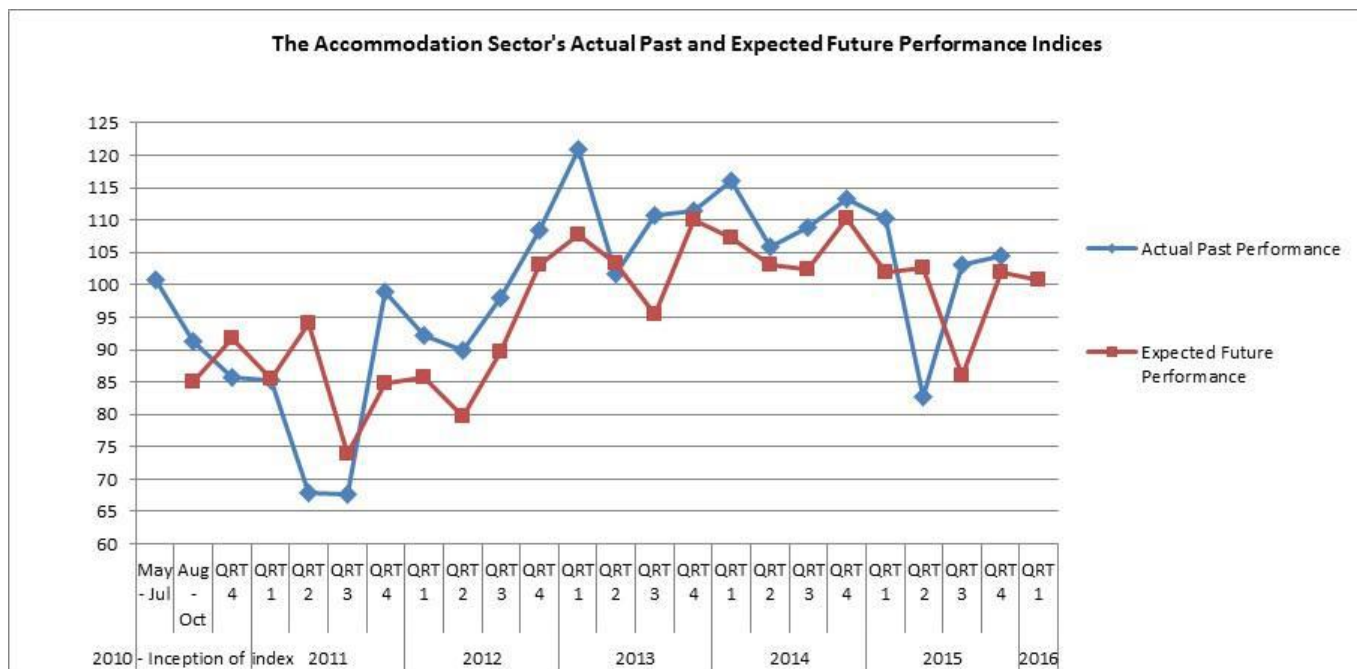
#### What is Normal?

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.

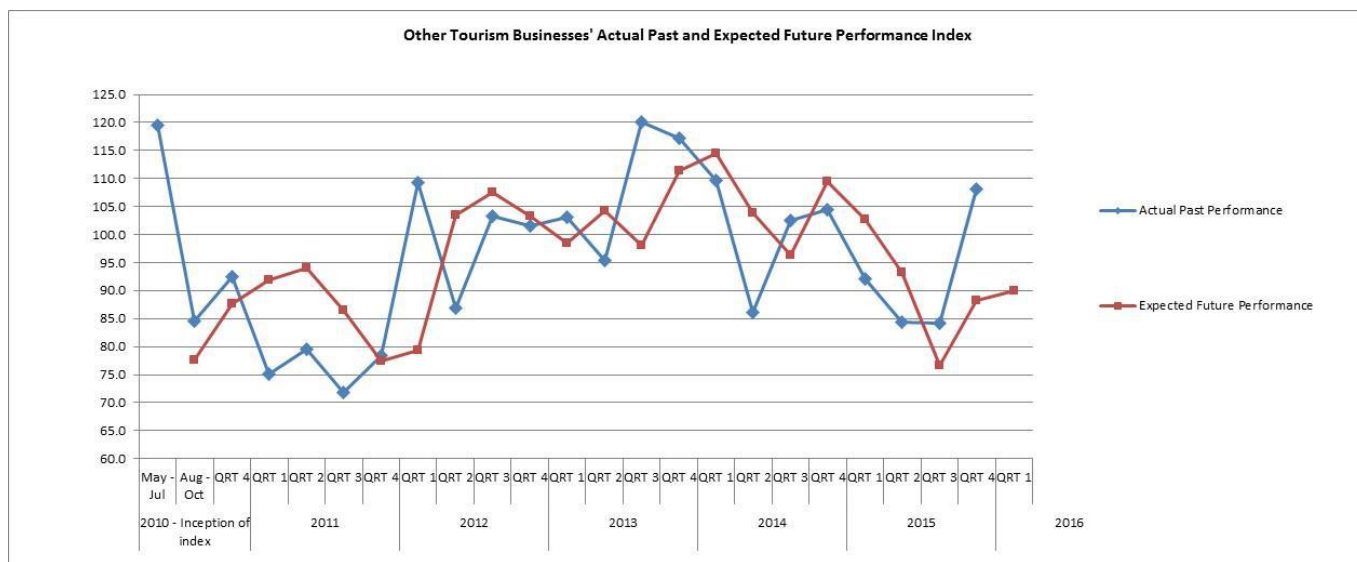
### Accommodation Index



### 2.3 Other Tourism Businesses Sub-Index

- Other Tourism Businesses recorded better than anticipated business performance and better than normal business performance (108,1 compared to the anticipated 88,2) for Q4 2015.
- A forecast index of 89,9 is anticipated for Q1 2016 reflecting a similar level of continued somewhat pessimistic outlook from Other Tourism Businesses in spite of the good performance 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	83.6	97.3	82.6	102.7	84.4	93.2
	3 <sup>rd</sup> Quarter	92.4	80.6	103.1	85.9	84.2	76.6
	4 <sup>th</sup> Quarter	106.5	94.2	104.4	102.0	108.1	88.2
<b>2016</b>	1 <sup>st</sup> Quarter		94.6		100.8		89.9

**3. Balance Statistics**

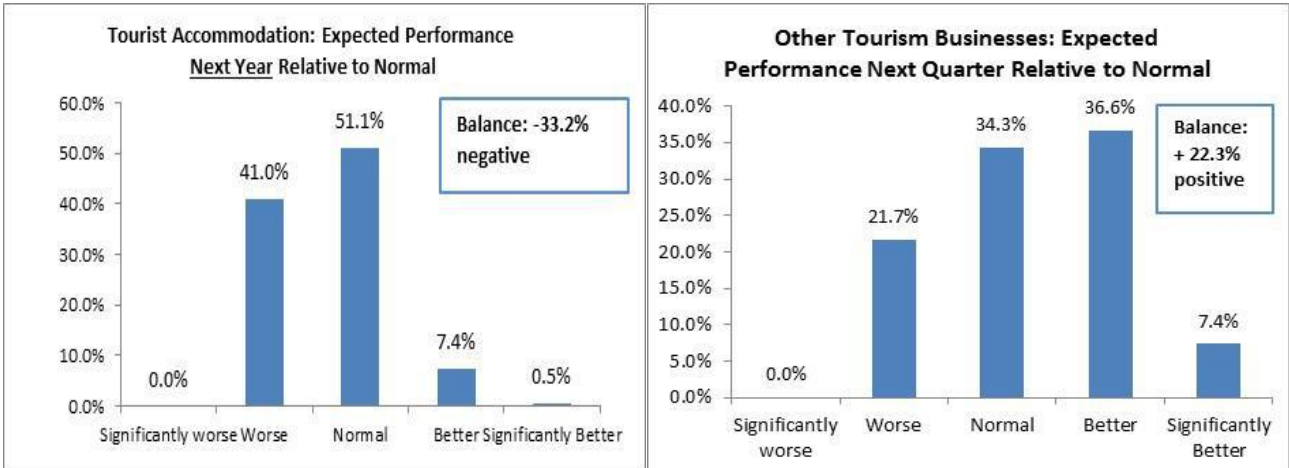
**3.1 Performance for the Next Year**

When looking at expected performance for the next year, the Accommodation Sector records a negative balance statistic of -33,2% with 41% of respondents anticipating business performance to get worse whereas only 7,9% of respondents expect an improvement in business performance. This is a significant swing from the neutral 0% balance statistic of last quarter. A notable 51,1% of respondents anticipate business performance to remain the same.

On the other hand, Other Tourism Businesses show a strong positive balance statistic despite their pessimistic outlook for Q1 2016 at +22,3% with 21,7% of respondents expecting less than normal business performance and 44% of respondents expecting better than normal business performance. This balance statistic is the strongest recorded since Q1 2014 at 47,3%.

**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.



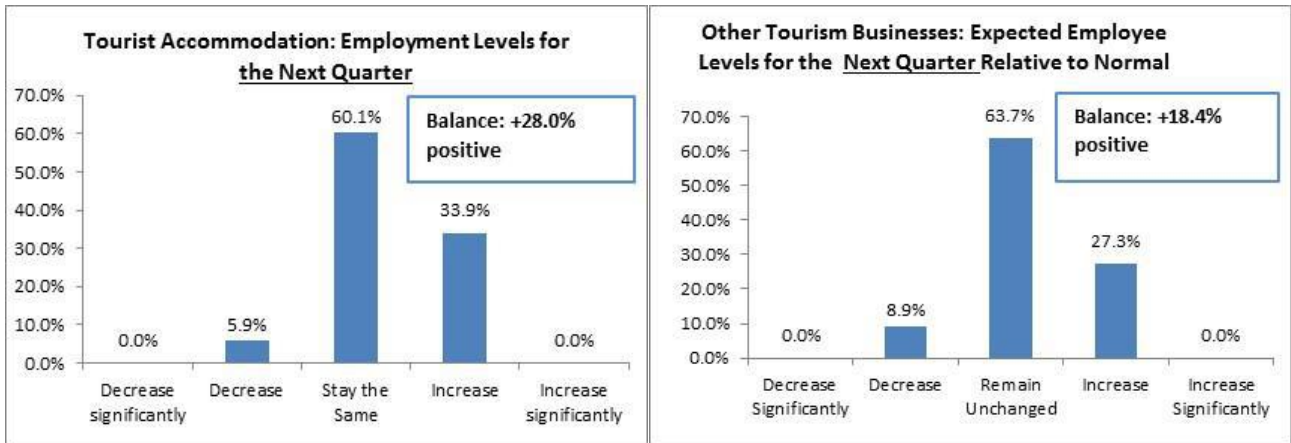


### **Summary of the Next Year Balance Statistic**

		<b>Accommodation Sector</b>	<b>Other Sector</b>
<b>2011</b>	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%
<b>2012</b>	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%
<b>2013</b>	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%
<b>2014</b>	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%
<b>2015</b>	1 <sup>st</sup> Quarter	+36,7%	+5,0%
	2 <sup>nd</sup> Quarter	-19.3%	-18.0%
	3 <sup>rd</sup> Quarter	0.0%	-3.9%
	4 <sup>th</sup> Quarter	-33.2%	+22.3%

### **3.2 Employment Levels Next Quarter**

Employment levels in the Accommodation Sector for next quarter are largely expected to remain the same with a positive employment balance statistic of +28% with a significant 33,9% of respondents expecting to increase employment levels compared to 5,9% expecting to decrease employment levels. Similarly, Other Tourism Businesses record a positive balance statistic of +18,4% with 27,3% expecting to increase employment levels and only 8,9% of respondents expecting to decrease employment levels, despite their negative outlook for next quarter.

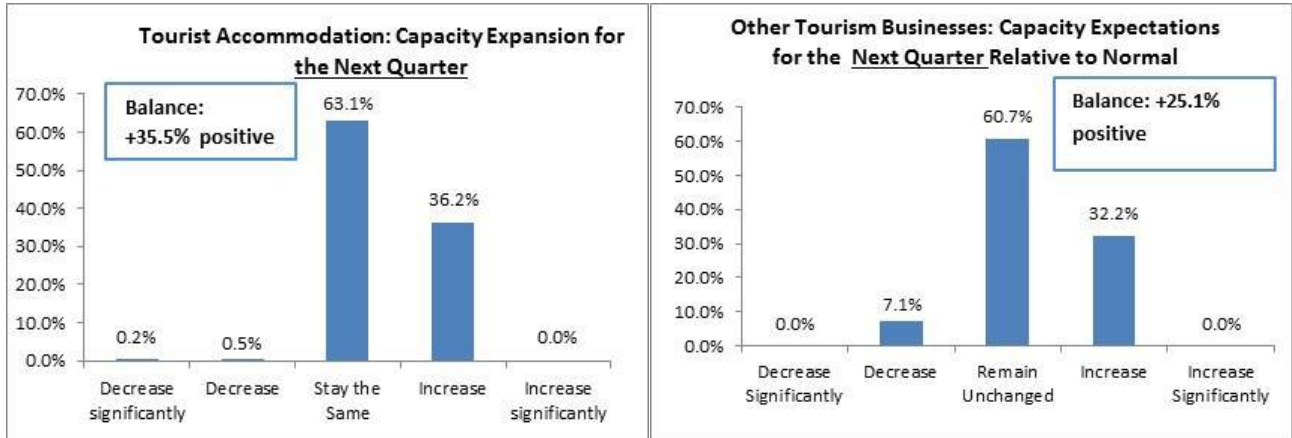


**Summary of the Employment Balance Statistic Historical Results**

		Accommodation Sector	Other Sector
<b>2011</b>	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%
<b>2012</b>	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%
<b>2013</b>	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%
<b>2014</b>	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%
<b>2015</b>	1 <sup>st</sup> Quarter	-1.8%	-4.1%
	2 <sup>nd</sup> Quarter	-3.6%	-21.5%
	3 <sup>rd</sup> Quarter	+10.5%	-4.8%
	4 <sup>th</sup> Quarter	+28.0%	+18.4%

### 3.3 Capacity Growth Expectations

When looking at capacity expansion for next quarter, the Accommodation Sector records a positive balance statistic of +35,5% with the majority of the respondents citing capacity to remain the same (63,1%) with 0,7% expecting a decrease and 36,2% expecting an increase. Other Tourism Businesses recorded a positive balance statistic at +25,1% with 7,1% expecting a decrease and 32,2% expecting an increase in capacity, again despite their pessimistic outlook for next quarter.



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

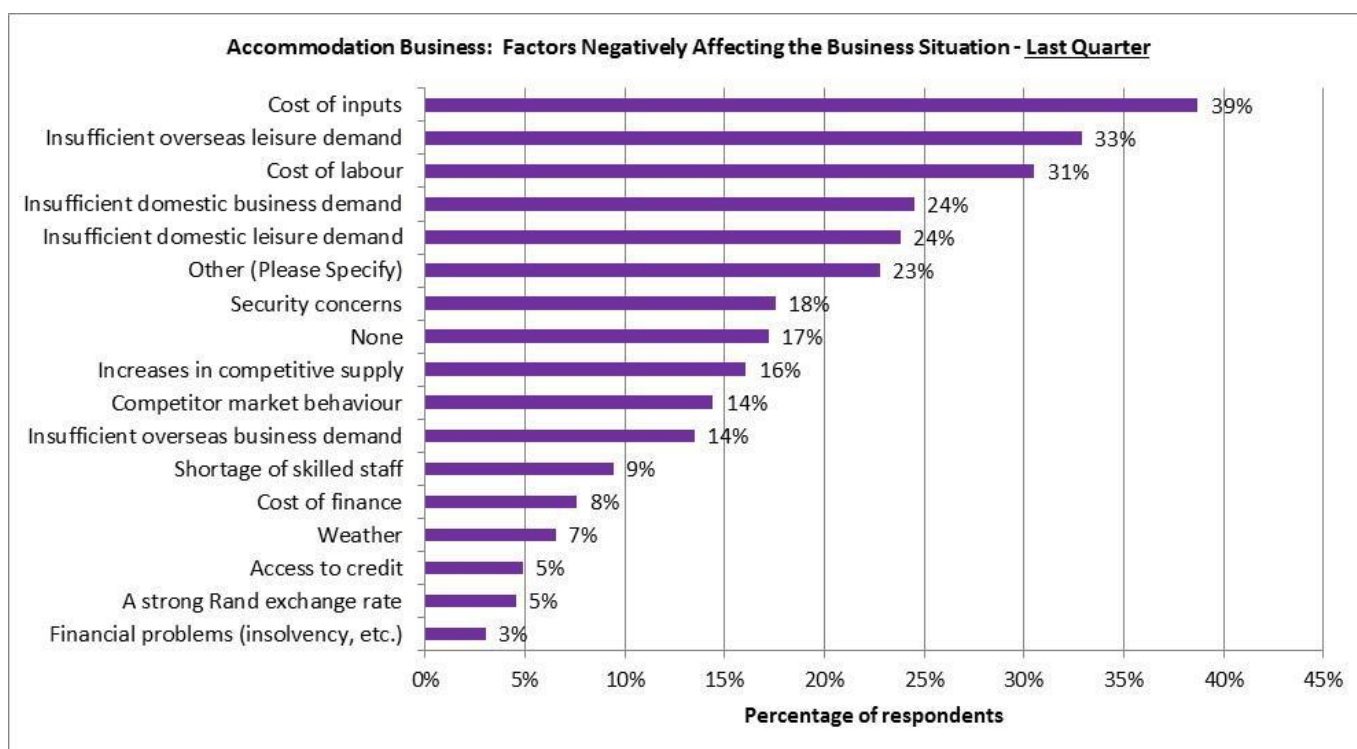
		Accommodation Sector	Other Sector
2011	1 <sup>st</sup> Quarter	+14.3%	-11.1%
	2 <sup>nd</sup> Quarter	+12.6%	+9.3%
	3 <sup>rd</sup> Quarter	+9.6%	+24.8%
	4 <sup>th</sup> Quarter	-3.3%	+21.0%
2012	1 <sup>st</sup> Quarter	+7.4%	+20.7%
	2 <sup>nd</sup> Quarter	+25.6%	+7.2%
	3 <sup>rd</sup> Quarter	+22.5%	+30.3%
	4 <sup>th</sup> Quarter	+11.1%	+26.1%
2013	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%
2014	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%
2015	1 <sup>st</sup> Quarter	+48.5%	-9.7%
	2 <sup>nd</sup> Quarter	+27.2%	+5.2%
	3 <sup>rd</sup> Quarter	-2.3%	+20.7%
	4 <sup>th</sup> Quarter	+35.5%	+25.1%

#### 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 business performance in the industry.

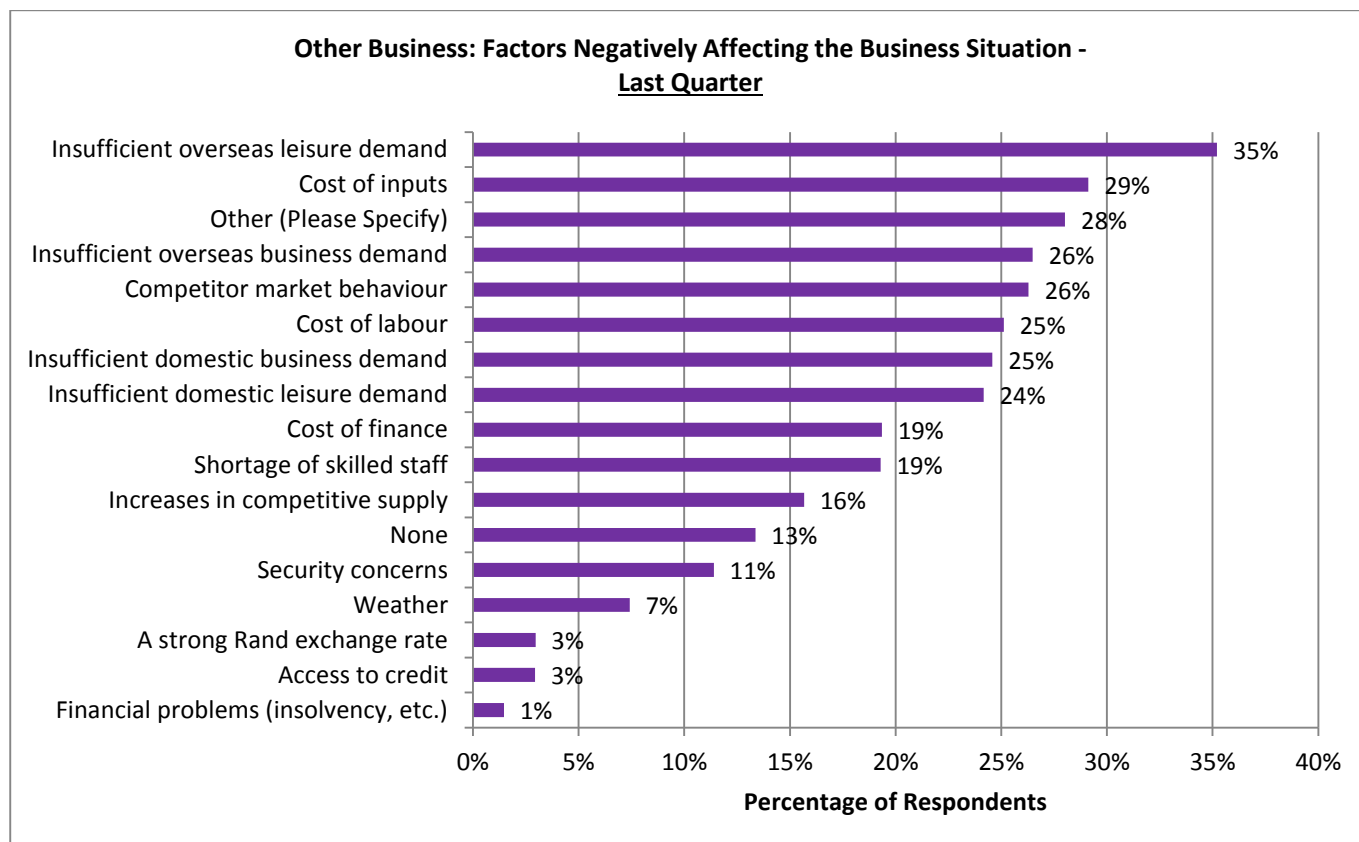
##### 4.1 Negative Factors – Last Quarter

- Cost of inputs was the greatest negative contributing factor (39%) to business performance for the Accommodation Sector, followed by insufficient overseas leisure demand (33%) which for the last two quarters was the greatest negative contributing factor affecting business performance. The cost of labour (31%), insufficient overseas business demand (24%) and insufficient domestic leisure demand (24%) continue to remain significant negative factors.
- Other cited negative contributing factors include:
  - Uncertainty around the current visa legislation;
  - Escalating costs of living negatively impacting the domestic leisure market;
  - The growth in popularity of sites such as AirBnB i.e. increase in competition;
  - The capping of Government rates which has led to a decrease in demand from the sector;
  - Inadequate infrastructure and lack of maintenance of roads in certain areas; and
  - Water and electricity shortages



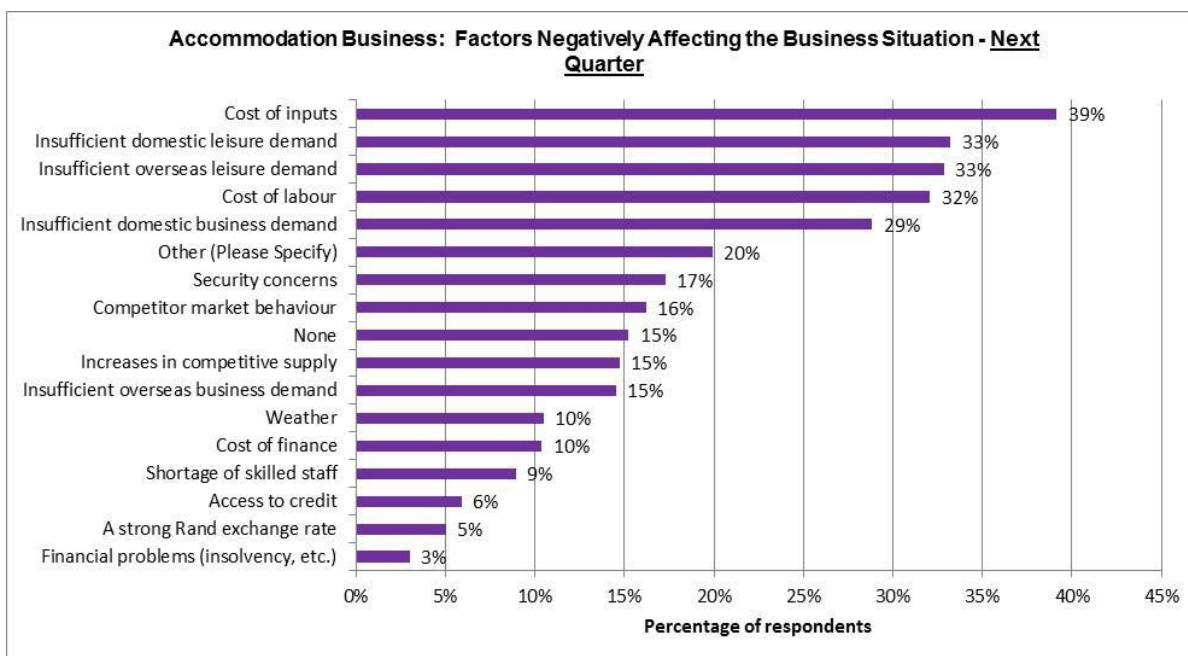
- With regard to Other Tourism Businesses, insufficient overseas leisure demand (35%) remains the greatest negative contributing factor to poor business performance. The impact of insufficient overseas leisure demand has improved significantly from a high of 72% of respondents citing this factor last quarter. This is followed by the cost of inputs (29%) and other negative impacts (28%).

- Other negative contributing factors include:
  - The escalating cost of living negatively impacting the domestic market;
  - The ongoing visa and birth certificate regulations and uncertainty around exact requirements;
  - Ebola fears from last year continue to affect travel to the country – insufficient involvement from Government to promote “Ebola Free” travel to South Africa; and
  - The current instability within Government and erratic behaviour of Government Departments and Officials.

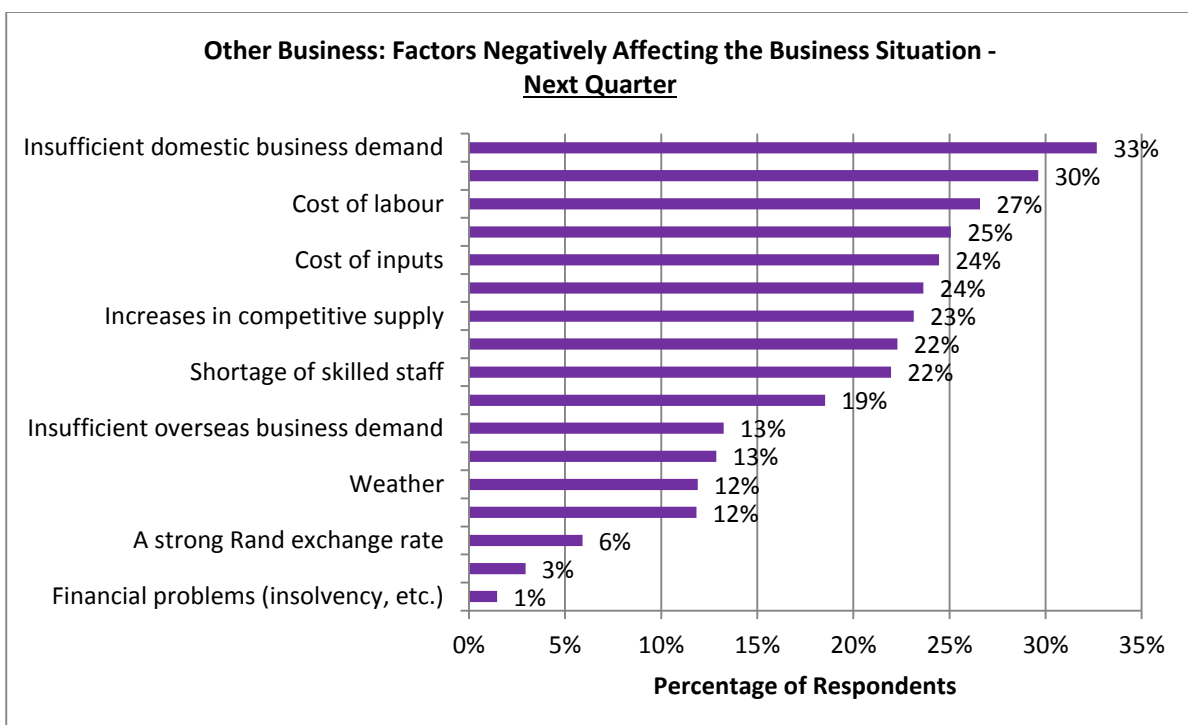


#### 4.2 Negative Factors – Next Quarter

- As in the last quarter, the Accommodation Sector expects cost of inputs to be the greatest negative contributing factor as stated by an identical 39% of respondents. This is followed by insufficient domestic leisure demand (33%) which has increased from 25% of respondents in the previous quarter. Insufficient overseas leisure demand (33%) and the cost of labour (32%) remain significant negative factors that will impact business performance in the next quarter.
- Similar negative contributing factors are expected for next quarter with the inclusion of the following:
  - Instability within Government negatively impacting the economy of South Africa;
  - Water shortages due to severe drought;
  - The weak exchange rate impacting cost of imported goods and services; and
  - The rising cost of electricity.



- For Other Tourism Businesses, 33% of respondents expect that insufficient domestic business demand will be a negative contributing factor to business performance. Followed by competitor market behaviour (30%) and cost of labour (27%). Unlike the previous quarter where 67% of respondents forecast that insufficient overseas leisure demand would negatively impact business performance in the next quarter, only 25% of respondents forecast this as a negative contributing factor going into the next quarter.
- Similar negative contributing factors experienced last quarter are expected for next quarter.

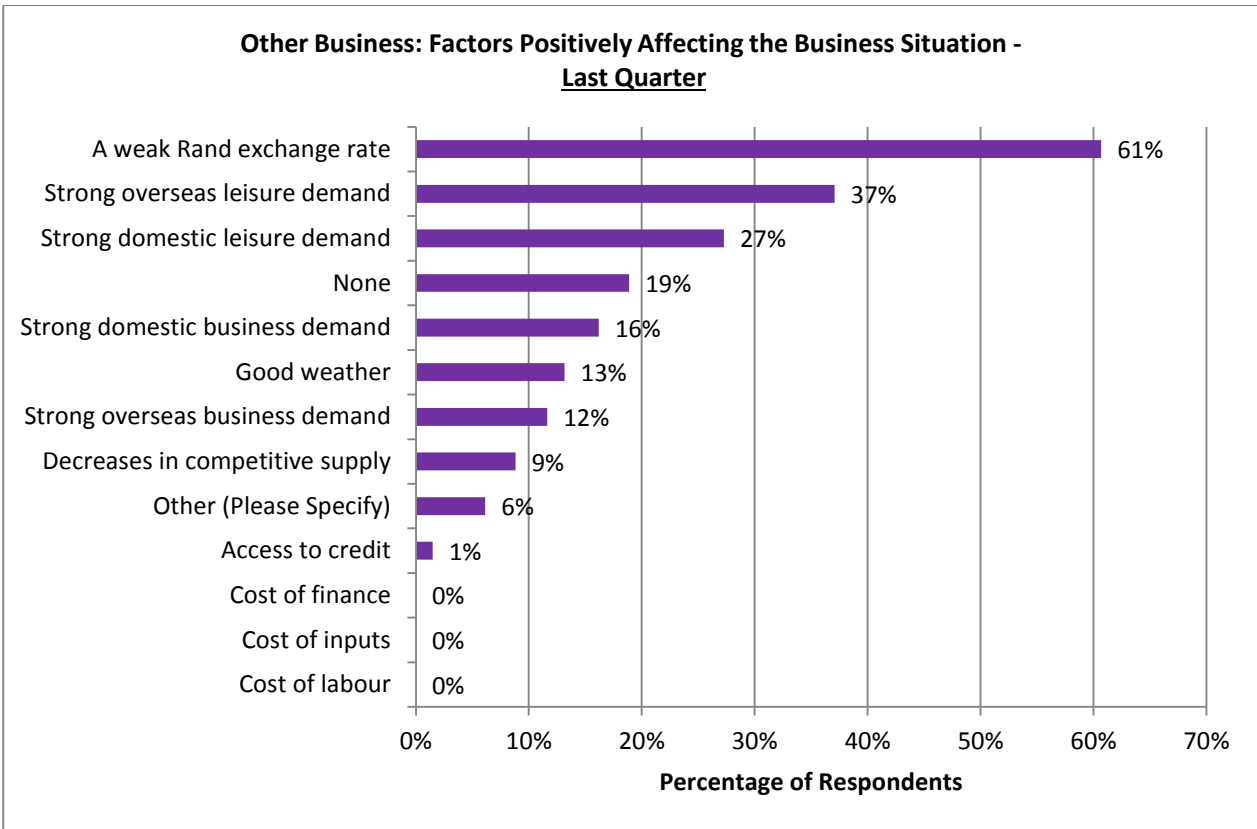


### 4.3 Positive Factors – Last Quarter

- A weak exchange rate (30%) remains the most prominent positive factor for the Accommodation Sector.
- Other cited positive contributing factors include:
  - New management;
  - A good festive season;
  - The decrease in supply due to several establishment closures; and
  - Renovations.



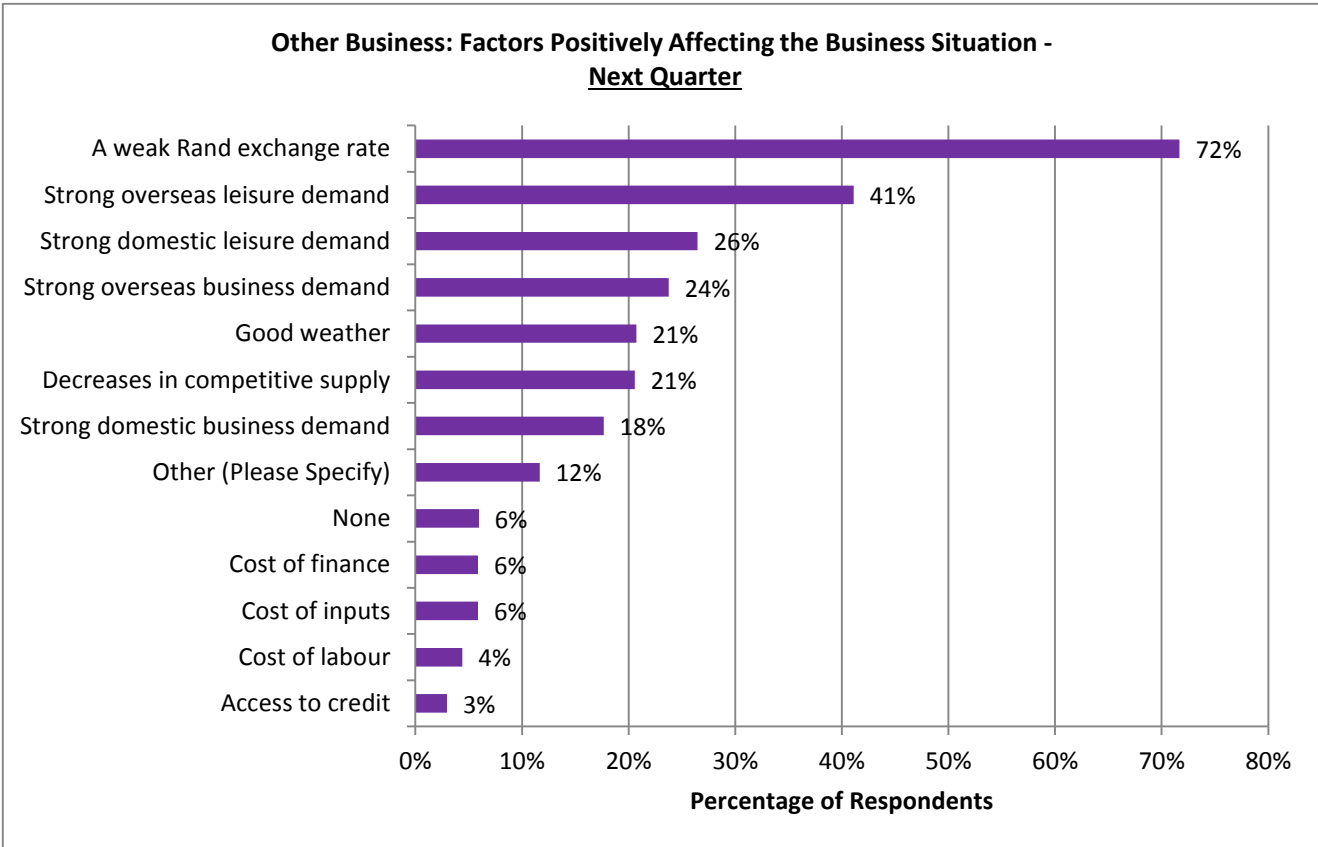
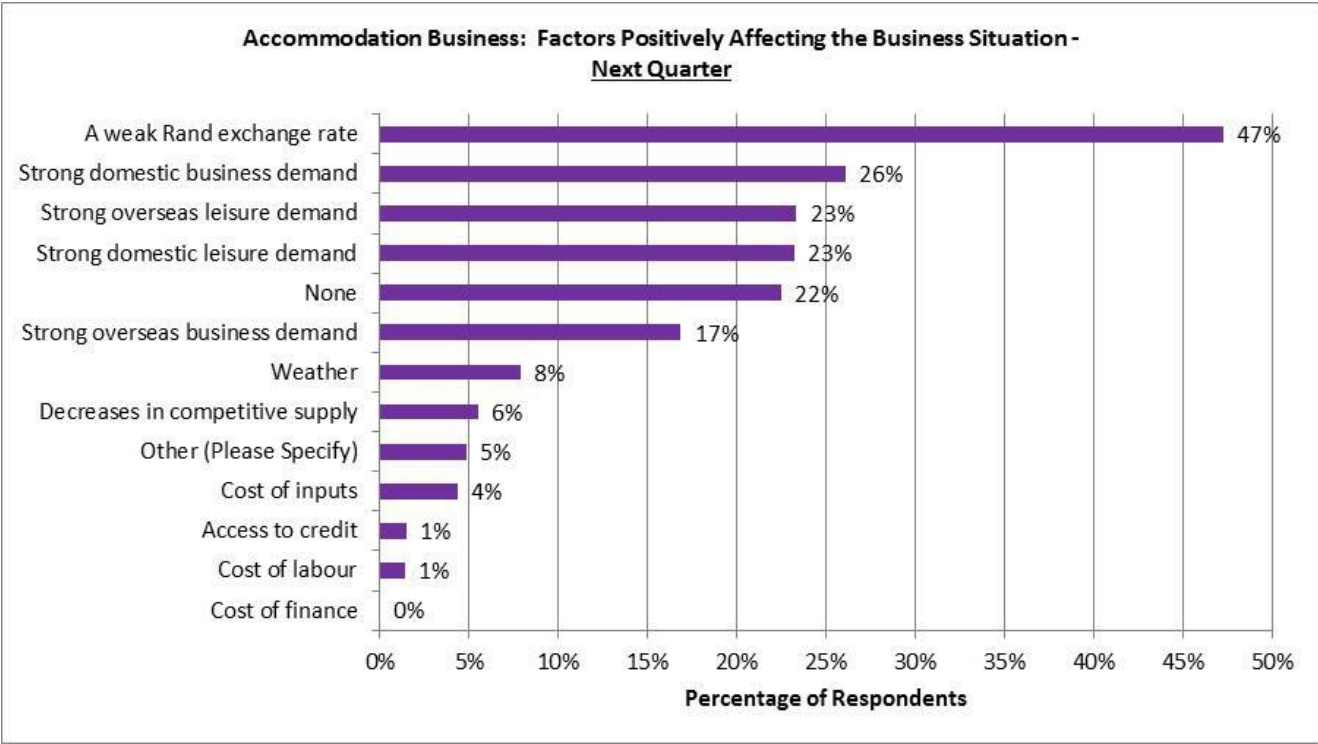
- A much higher proportion of Other Tourism Businesses cited the weak exchange rate (61%) as a positive factor experienced last quarter compared to 52% last quarter. This is followed by strong overseas leisure demand (37%) and strong domestic leisure demand (27%).
- Other cited positive contributing factors include:
  - Improved customer service and flexibility;
  - Improved levels of staff training; and
  - An increase in marketing activities.



**4.4 Positive Factors – Next Quarter**

- The Accommodation Sector (47%) and Other Tourism Businesses (72%) anticipate the weak exchange rate will continue to have a positive impact on business performance next quarter. Other Tourism Businesses (41%) expect strong demand from overseas leisure.
- Additional positive contributing factors cited include:
  - General improved marketing;
  - Improved levels of customer satisfaction



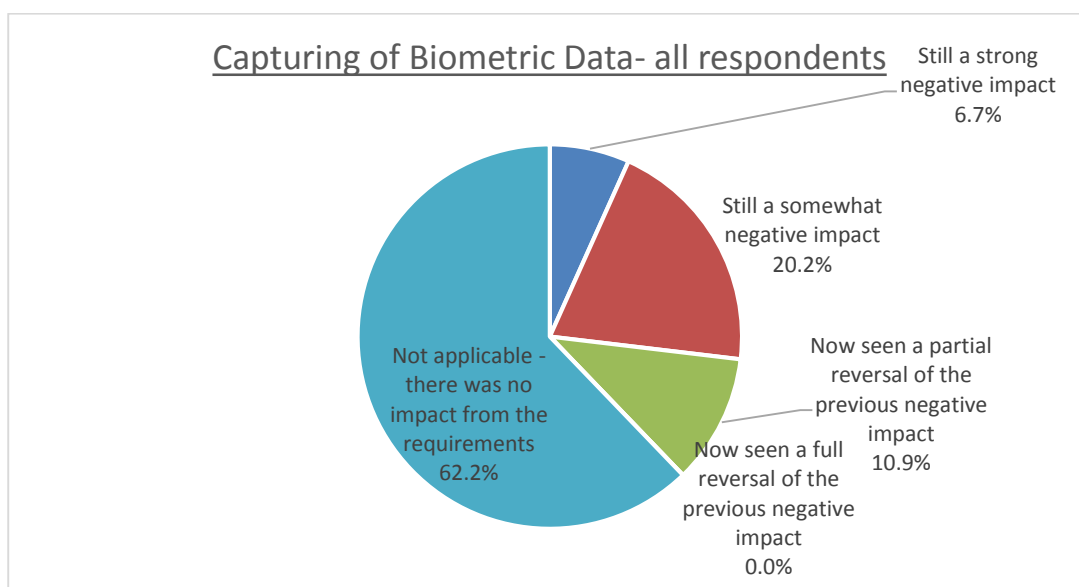


## 5. Additional Questions –Birth certificates/Biometric Data Capturing

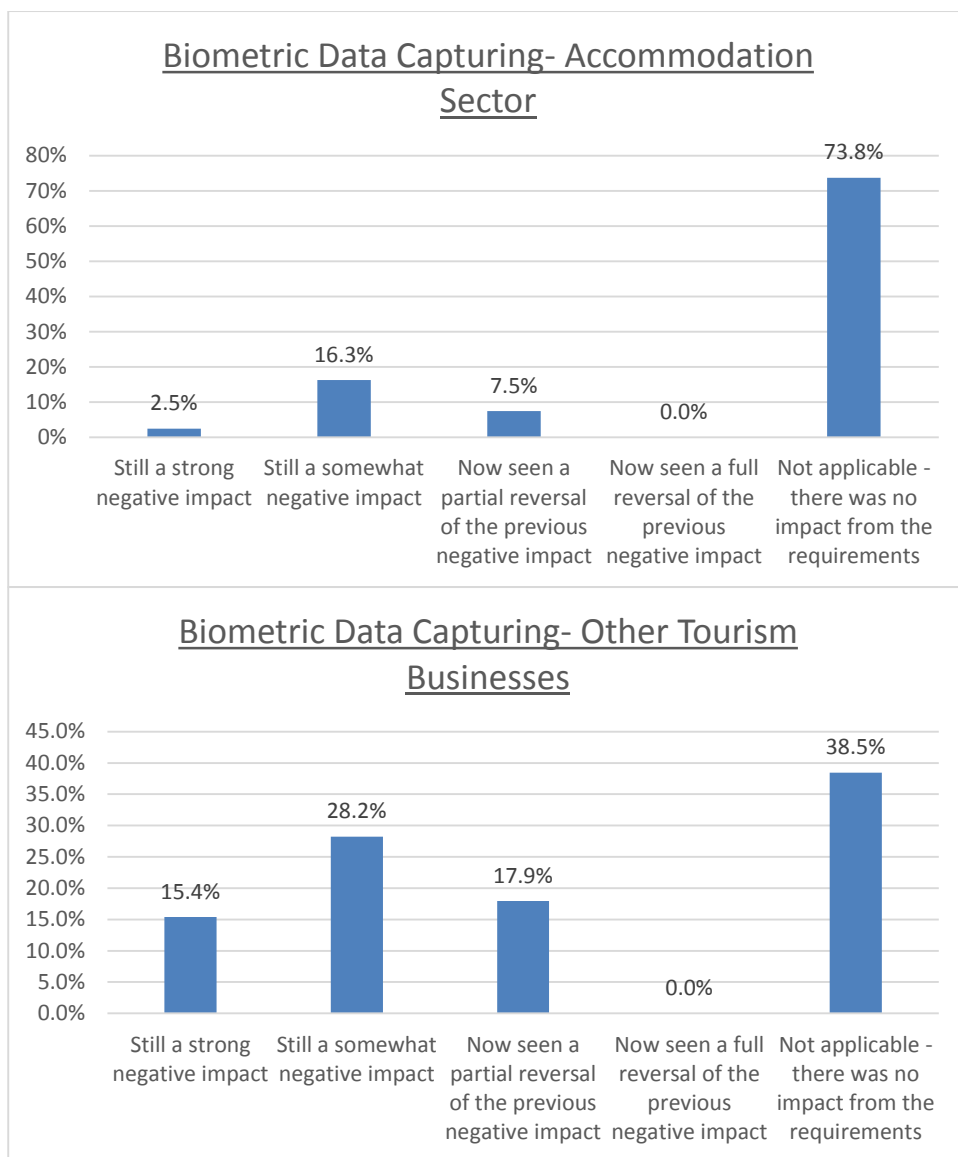
Respondents were asked “Now that the requirement for children to carry unabridged birth certificates will no longer apply to foreign visitors although there is a strong guideline for all children to carry similar documentation), have you seen a reversal of any negative impacts your business experienced?”

- Almost half, 48,4%, of respondents cite there was no impact from the requirements (i.e. not applicable) and 16,4% have seen a partial reversal of the previous negative impact as a result of the changes. Whilst 13,2% have continued to experience a strong negative impact regardless of the changes.

Respondents were asked “Has the recent change by Home Affairs with the plans to move the capturing of biometric data to the airports on arrival seen a reversal of any negative impacts on your business?”



- 26,9% of respondents still feel a negative impact despite the move of capturing of biometric data to the airports whereas 10,9% have noted a reversal of the previous negative impact.
- 62,2% of respondents were not affected by the introduction of the regulation (i.e. considered not applicable to their establishment).



- Additional comments made with regard to both changes to the unabridged birth certificates and the capturing of biometric data at airports include the following:
  - “Our target market does not include children as we focus on mature Europeans.”
  - “The effects of the unabridged birth certificate requirements will be felt for many months to come as the poor implementation by Home Affairs has left many target markets unsure about travel to South Africa in the future – a few changes to this regulation will not install enough confidence to completely reverse the negative impact the tourism industry in South Africa has experienced”
  - “Other destinations that are tourism focused don't have the same strict requirements. This makes South Africa less attractive to tourists.”
  - “Negative publicity on tourism not countered by good PR.”
  - “Despite a decrease in foreign visitors to our establishment we have noted an increase in domestic leisure visitors as the current exchange rate and visa requirements make travel locally more affordable and attractive”
  - “Cancellation of bookings - very few bookings from overseas guests in comparison to previous periods (years).”

## 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
<b>2010</b>	43	36	47	44
<b>2011</b>	55	48	39	38
<b>2012</b>	52	41	47	46
<b>2013</b>	52	48	42	43
<b>2014</b>	41	41	46	51
<b>2015</b>	49	43	38	36

Source: BER

50 Indicates normal levels of confidence. This quarter shows a small further dip in business confidence – this time by 2 points. This is contrary to the TBI index which recorded an improvement over Q4 2015.

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 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	89.9	86.9	84.6	87.9	84.3	81.6	88.4	82.7	79.6
Quarterly Average	90.4			87.1			84.6			83.6		

The SACCI BCI shows a small drop in the quarterly average (from 84,6 to 83,6) in Q4 2015 compared to the incline in the TBI.