



TBCSA FNB Tourism Business Index

2nd Quarter 2013 Results

Compiled by Grant Thornton

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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. 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.

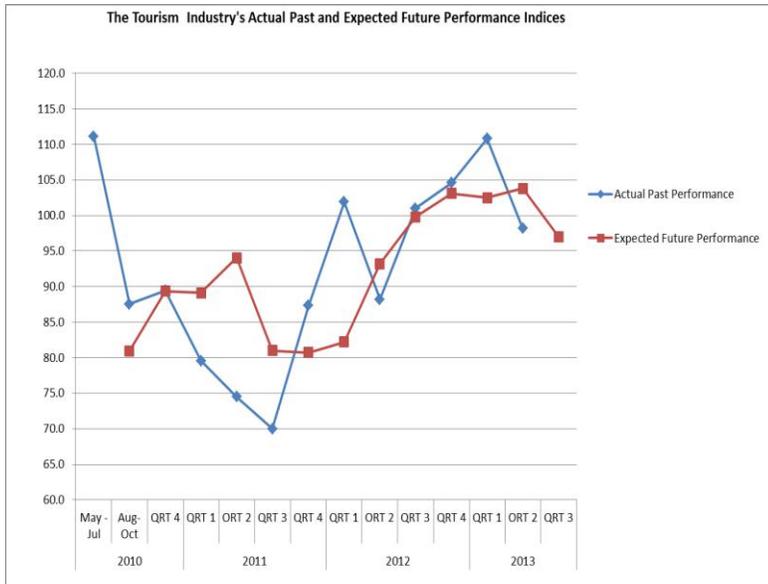
It is a business index that focuses on the performance and profitability of businesses operating in the sector, as oppose to a sector performance index. While in many instances the subtle distinction between the two approaches would not manifest in different indices, in certain circumstances, they may 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 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, ie October to December. October was therefore included in two indices. From the first official edition in 2011 onwards, only regular quarters are covered.

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The Tourism Business Index



- In Q2, the TBI indicates industry performance worse than expected, dropping to 98,2 (compared to an expected index of 103,8), both down from an actual last quarter of 110,8
- In the prior three editions, the TBI had climbed steadily, and although this index reverses that trend, it is still close to 100, ie in the normal performance range.
- 2013 Q3 expectation at 97,0 is close the Q2 actual performance of 98,2. It would appear that the industry is less optimistic than in previous editions, but are still confident that operations within the industry are close to normal levels..
- The TBI index for the Accommodation Sector in Q2 2013 was slightly higher than normal at 101,7 but much lower than Q1 2013 (120,9), while the Other Tourism Businesses recorded a Q2 index of 95,1 which is also lower than the last quarter (Q1 2013) performance of 103,1.
- Both the Accommodation and Other Tourism Businesses performed worse than expected in Q2 2013 (101,7 compared to 107,8 for accommodation and 95,4 compared to 98,4 for Other Tourism Businesses).

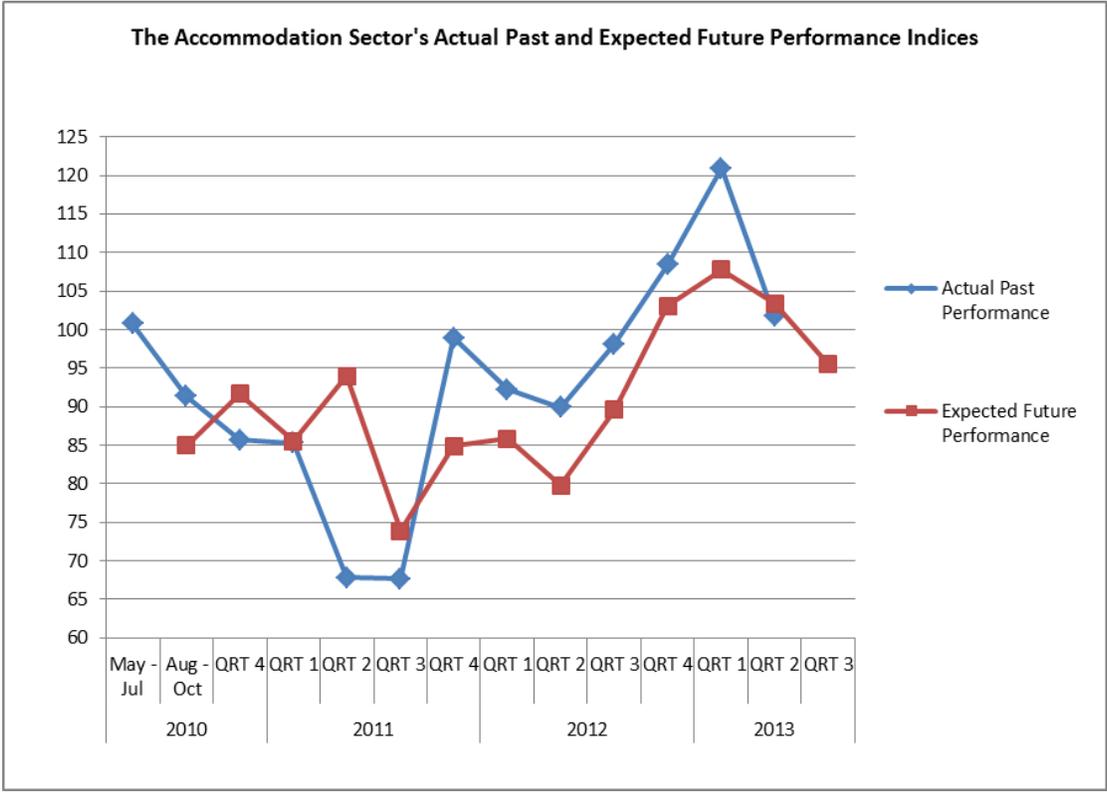
What is Normal?

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”.

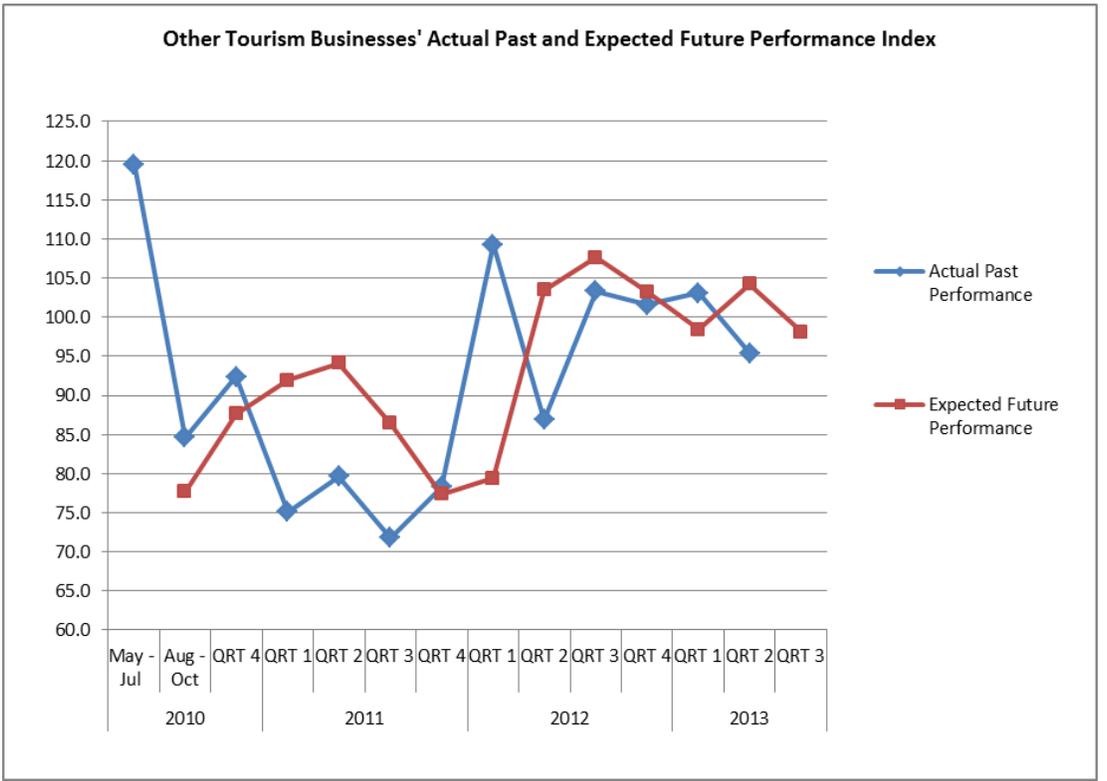
Normal is then calibrated to an index of 100. When the index shows Performance or Prospects at higher than 100, this indicates better than normal performance while, below 100 indicates worse than normal performance.

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



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		97.0		95.5		98.1

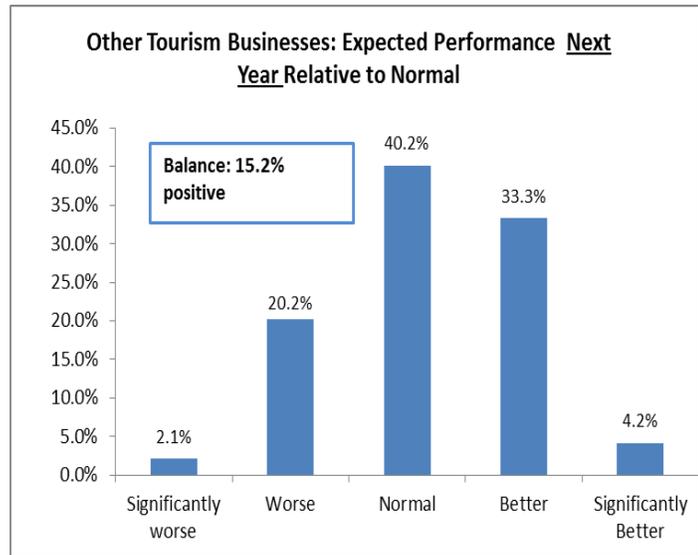
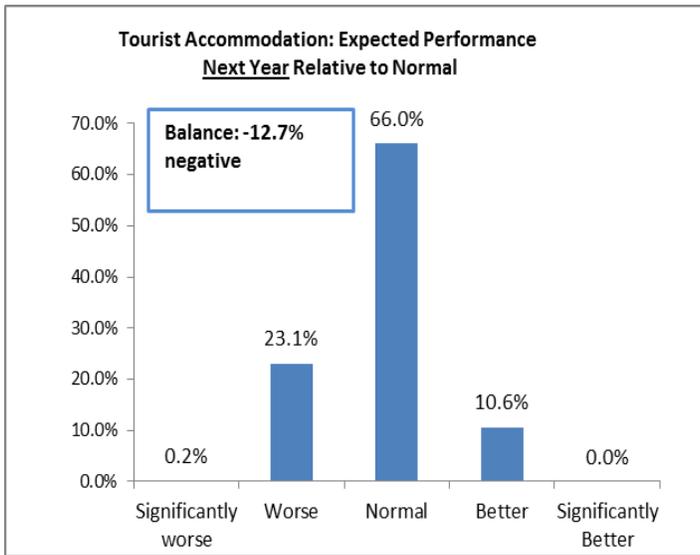
Balance Statistics

- When looking at next year, on balance the accommodation respondents have a negative outlook (-12,7%) which has decreased significantly from the positive 13,1% expected in the last edition. This level is still well above the lowest levels experienced through –out 2011. Other Tourism Businesses are on balance positive +15,2% about the outlook for the next year, which is still a decline from the previous annual outlook in the last edition of +29,7%.
- In the Accommodation Sector there is a negative balance (-15,6%) regarding capacity expansion for Q3 2013. This is the lowest level since the first official TBI in 2011 and indicates a move back to decreasing capacity in the industry. For the Other Tourism Businesses, there is a strong positive balance (+22,4%). The majority of respondents in both Sectors expect their capacity to remain unchanged (74,5% for Accommodation businesses and 77,6% for Other Tourism businesses), while a reasonable number of respondents are indicating increases in capacity in the Other Sector (22,5%), while very few respondents indicate increases in the Accommodation Sector (4,7%).
- In terms of employment, the Accommodation Sector is slightly negative on balance in this edition (-0,2%), a slight decrease from the +0,9% balance statistic recorded for Q2 2013 in the last edition. Other Tourism Businesses have gone from a stronger positive outlook in the last edition (+12,5%) to a neutral outlook of 0,0% for Q3 2013, with the majority still indicating that their employment levels will remain unchanged. The outlook for any increases in employment in the sector is therefore bleak for the 3rd quarter.

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.

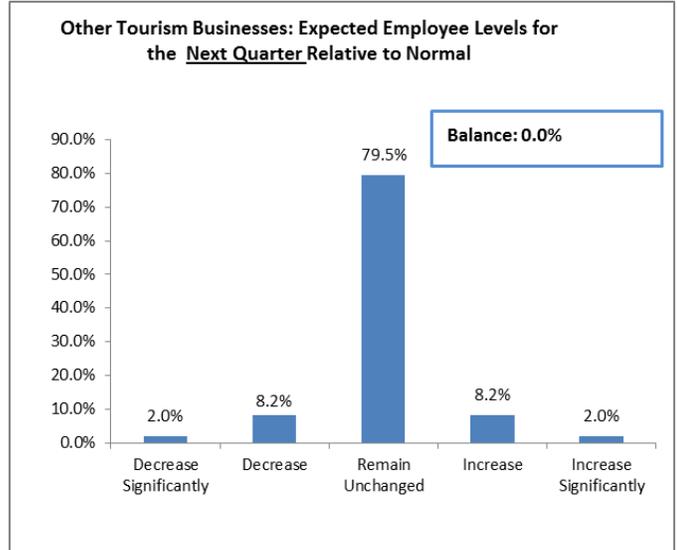
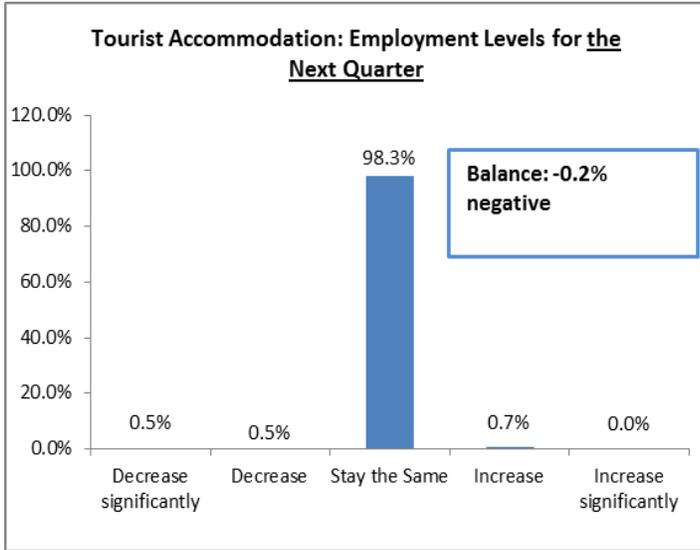
Next Year



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%

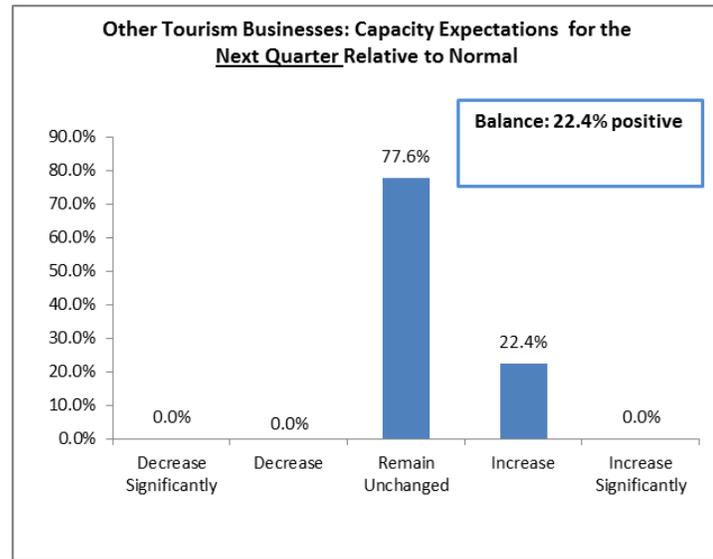
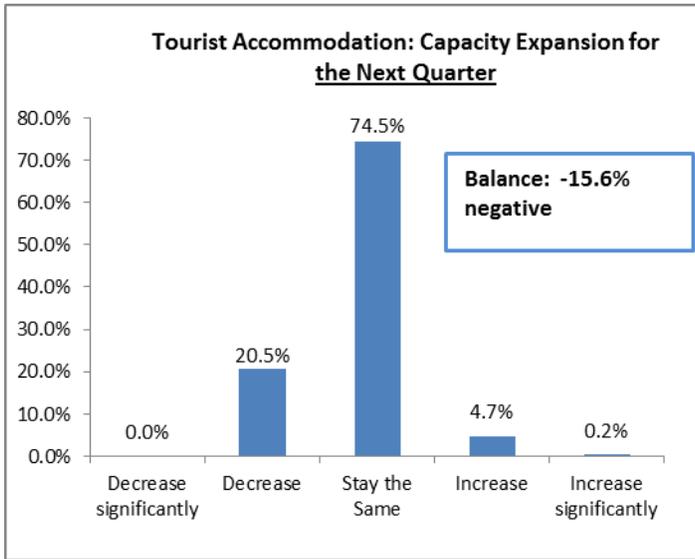
Employment Levels



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%

Capacity Growth Expectations



Summary of the Capacity Growth Balance Statistic Historical Results

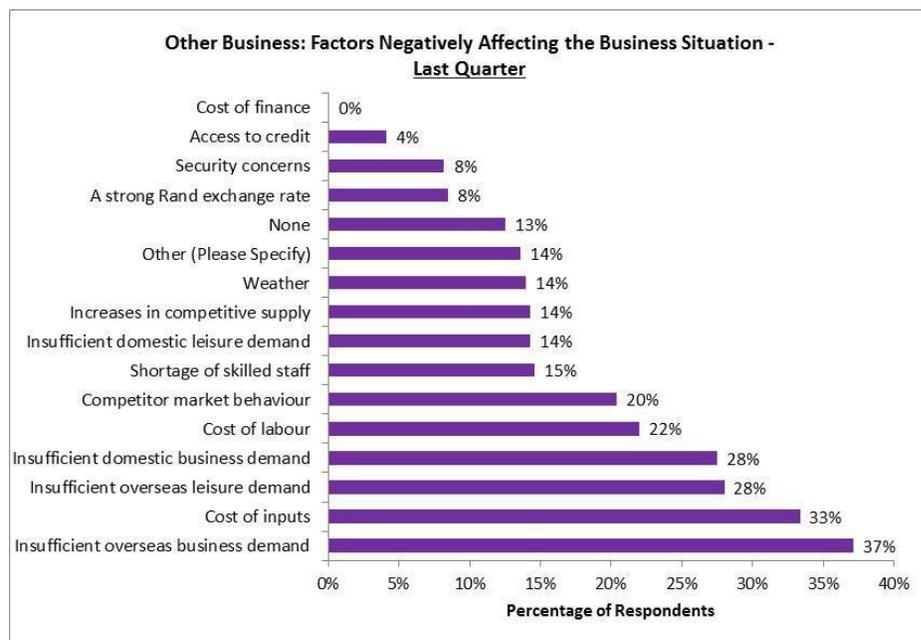
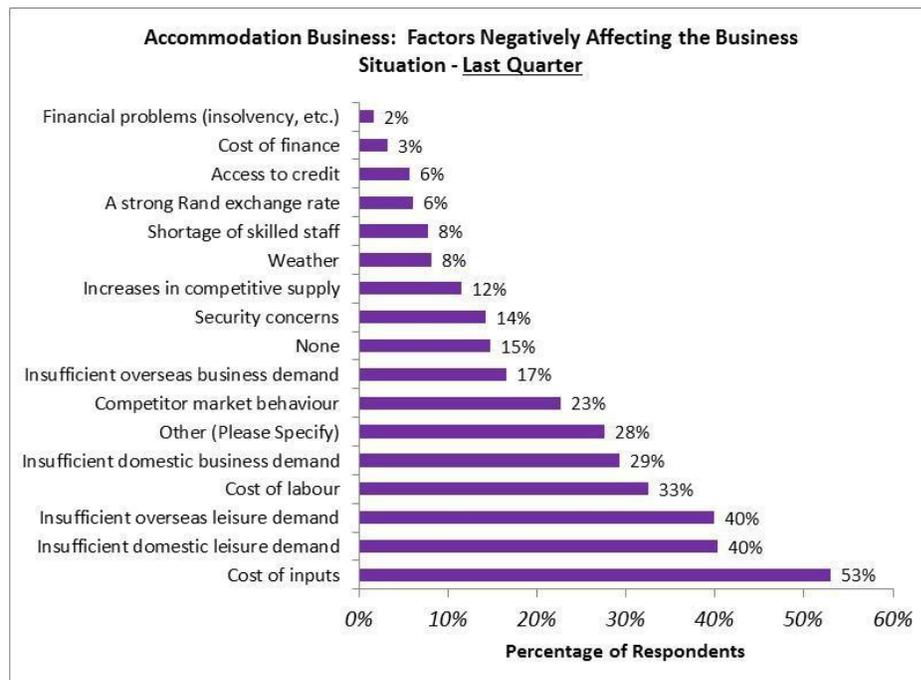
		Accommodation Sector	Other Sector
2011	1 st Quarter	+14.3%	-11.1%
	2 nd Quarter	+12.6%	+9.3%
	3 rd Quarter	+9.6%	+24.8%
	4 th Quarter	-3.3%	+21.0%
2012	1 st Quarter	+7.4%	+20.7%
	2 nd Quarter	+25.6%	+7.2%
	3 rd Quarter	+22.5%	+30.3%
	4 th Quarter	+11.1%	+26.1+
2013	1 st Quarter	+2.0%	+15.5%
	2 nd Quarter	-15.6%	+22.4%

Factors Affecting Business Conditions

With regard to the performance of the Tourism Industry, this report considers both positive and negative factors which are possibly impacting on the performance of the different sub-sectors.

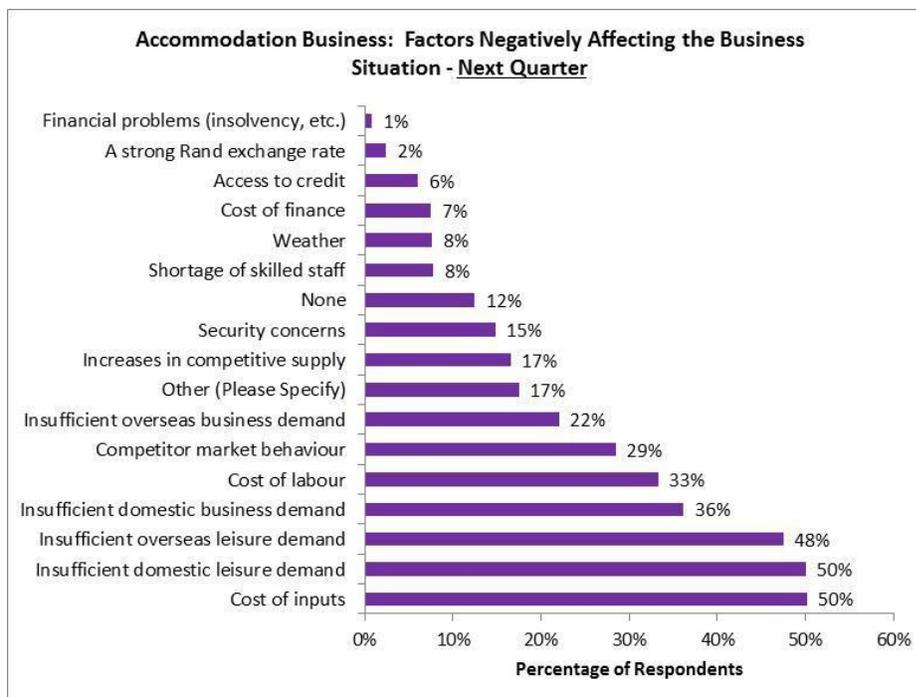
Negative Factors - Last Quarter

- Cost of inputs remains one of the most cited negative contributing factors for both Accommodation Business (53%) and Other Tourism Business (33%).
- Overall, Accommodation Business and Other Tourism Business experienced insufficient overseas as well as domestic leisure demand during the last quarter (Q1).

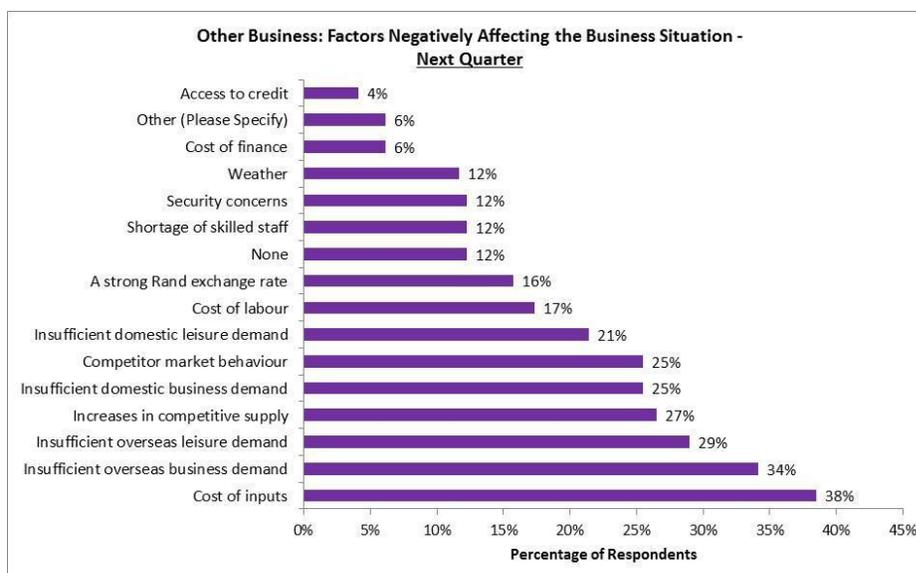


Negative Factors - Next Quarter

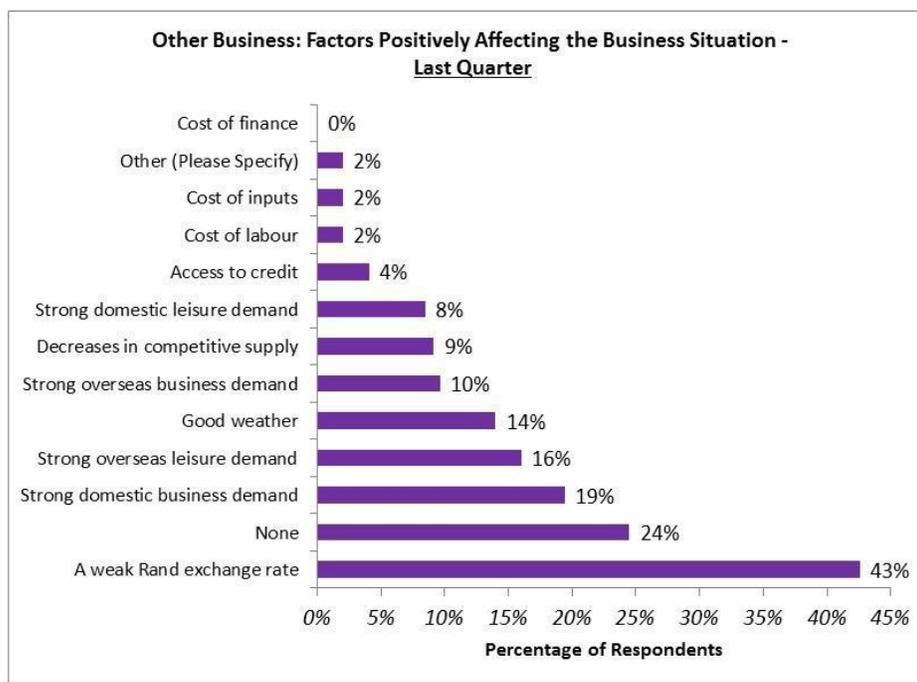
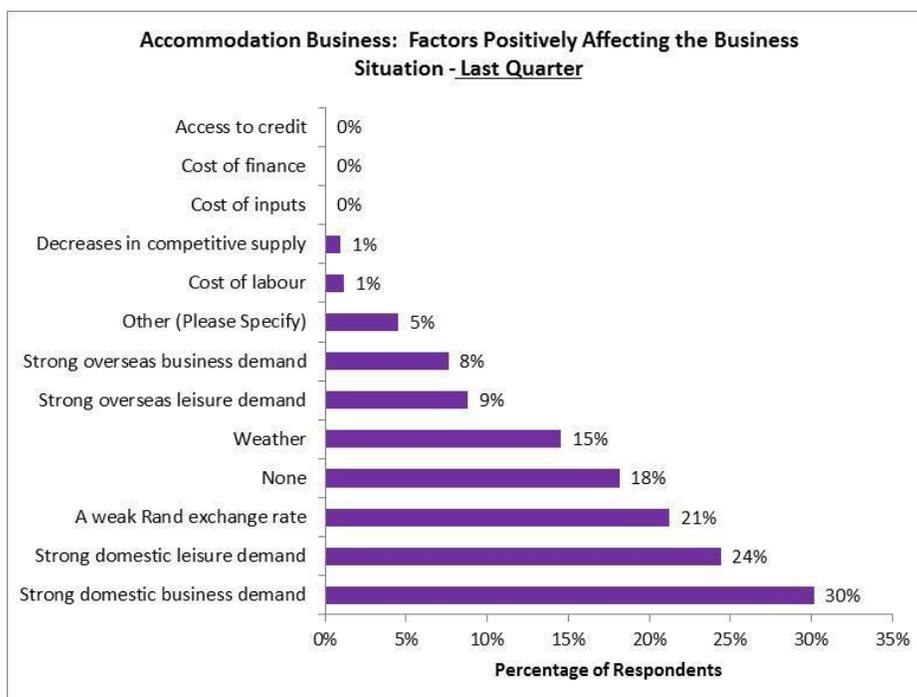
- Similar to that of the last quarter, cost of inputs (50%), insufficient domestic leisure demand (50%) and insufficient overseas leisure demand (48%) are predicted by the Accommodation Sector as negative impacting factors for the next quarter (Q3) for 2013.



- Likewise, Other Tourism Businesses expect cost of inputs (38%) to be one of the major negative contributing factors. Notably, a significant number of respondents foresee an on-going insufficiency in overseas demand for both business and leisure markets.



Positive Factors - Last Quarter

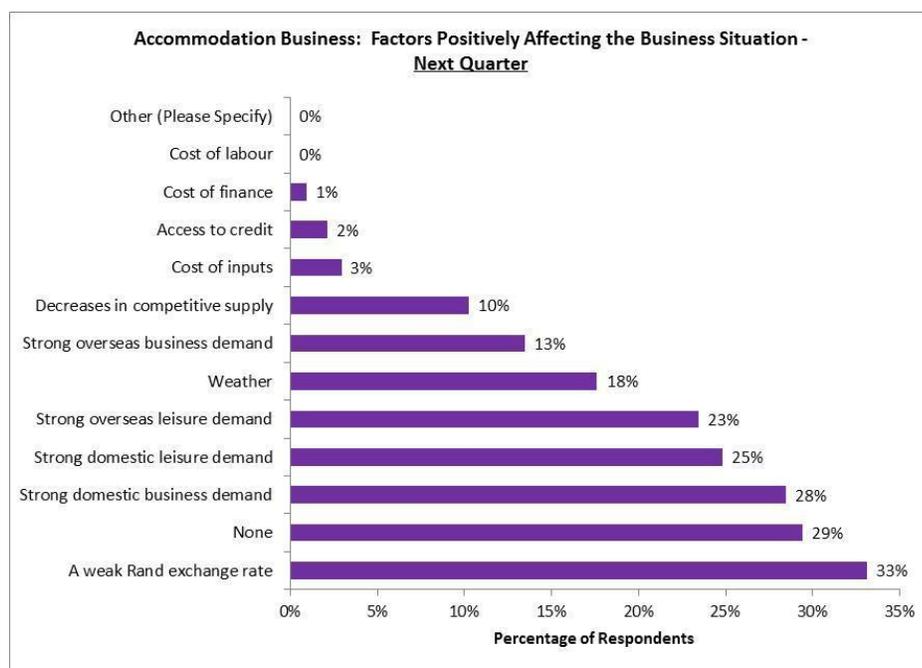


- Strong domestic leisure demand (24%) and business demand (30%) were cited by a number of respondents as a positive contributing factor for business performance for the Accommodation sector last quarter. This slightly contradicts the opposing highlighted negative factors cited in the same quarter. This suggests that while some businesses experienced positive numbers from the domestic markets others felt it insufficient.
- A large proportion of both the Accommodation Sector and the Other Tourism Sector felt that no specific factors positively impacted their business performance in Q1 with a notable 18% and 24% respectively.

- A weak exchange rate remains a significant positive contributing factor for Accommodation and Other Tourism Business , but particularly for Other Tourism with 43% of businesses citing it, up from 38% last quarter, and compared to 21% for Accommodation Businesses (which were 22% last quarter)

Positive Factors – Next Quarter

- 29% of Accommodation Businesses expect no positive factors to impact business performance next quarter.
- Across the board, a weak exchange rate is forecasted to have a positive impact on business performance in the next quarter.



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		

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

In the second quarter of 2013 the RMB/BER decreased by 4 index points from 52 to 48. Although just a small drop, the result is nevertheless meaningful. Not only is the index now back in net negative terrain (where pessimism exceeds optimism), but the decline in sentiment was also widespread. Business confidence fell in four of the five sectors covered in the survey.

The tourism business index, similarly to the RMB BER index, also reached positive territory, for the first time in a year in the first quarter of 2012. Likewise, both indices decreased in the second quarter of 2012 and then increased for two consecutive quarters with Tourism in positive territory in the 3rd and 4th quarters of 2012, while the RMB index only reached positive territory again in the first quarter of 2013. Both indices have decreased again to slip into negative territory in the second quarter of 2013. The TBI recorded a performance index of 98,2 against 100 for the second quarter of 2013, while the RMB/BER recorded 48 against a normal of 50 in Q2 2013. This indicates that the Tourism Industry is largely in-line with the business confidence levels generally in the market place at the moment.

The RMB/BER is a business tendency survey based on OECD methodology as is the TBCSA FNB 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 -2013 is presented in the below table.

2011											
Jan	Feb	March	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
103,1	101,9	104,2	102,5	101,2	102,4	99,0	98,6	98,4	97.5	97.4	99.1
2012											
Jan	Feb	March	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
97.1	99.5	95.7	94.3	92.8	94.9	90.9	95	91.7	92.0	91.7	93.0
2013											
Jan	Feb	March	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
94.0	93.0	90.4	92.3	90.4	90.2						

In 2012, the SACCI BCI reduced steadily each quarter (from a quarterly average of 97,4 in Q1 to 92,2 for Q4). In 2013, the Q1 average is 92,5 slightly higher than the Q4 2012 average, but below the Q1 2012 (97,4). In Q2 2013, the quarterly average has decreased to 90,7, again indicating a general decrease in business confidence when compared to Q1 2013.

Even though the methodologies are not the same and therefore different results could be expected, it would appear that there is a general downward tendency in business performance according to the SACCI BCI, which is also indicated by the TBI and REM/BER.