



TOURISM BUSINESS INDEX

Mainstreaming Travel and Tourism in the South African Economy

TBCSA FNB Tourism Business Index

2nd 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 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.

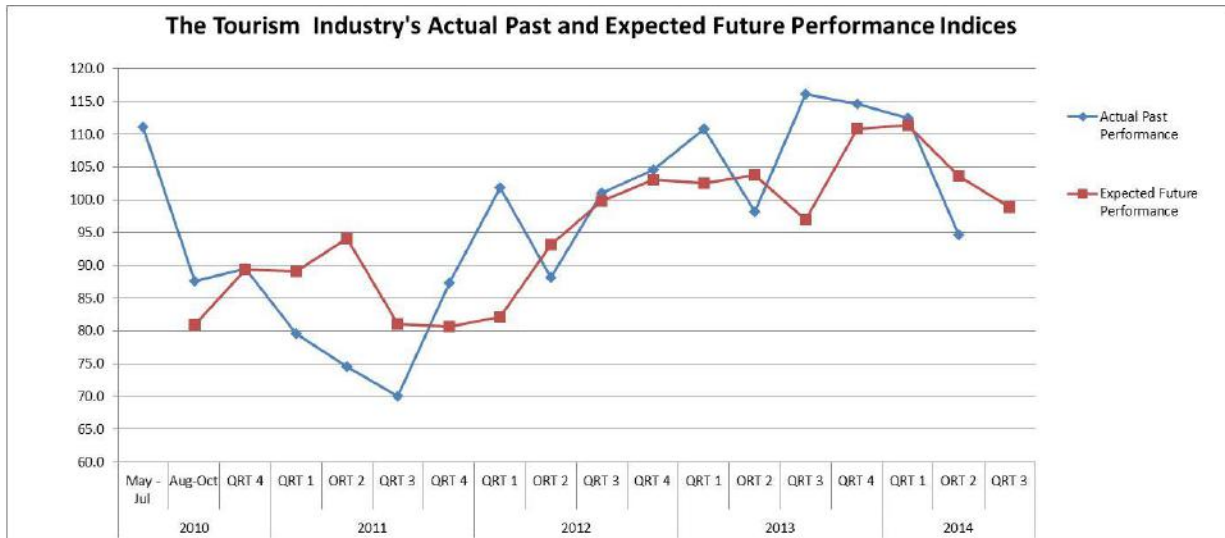
It is a business index that focuses on the performance and profitability of businesses operating in the sector, as oppose to a sector performance index. While in many instances the subtle distinction between the two approaches would not manifest in different results, in certain circumstances, they may 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



- Compared to Q1 2014 a downward trend is evident with overall performance recorded at 112,4 in Q1 now dropped to a slightly below normal performance of 94,7 in Q2 2014.
- The weaker performance in Q2 2014 is largely due to the poor performance experienced by the Other Tourism Businesses achieving a 86,2. Travel Agents and Conference Centres recorded significantly worse than normal performance.
- On the other hand, the Accommodation Sector performed slightly better than normal in Q2 2014 achieving a 105,8 but still down from the 116.1 in Q1 .
- Despite the weaker performance experienced in Q2 2014, the industry continues to be confident predicting a performance of 98,9 (i.e. almost normal levels) for next quarter. The Accommodation Sector anticipate a slightly above normal performance at 102,4 and Other Tourism Businesses expect a somewhat lower than normal performance of 96,3.

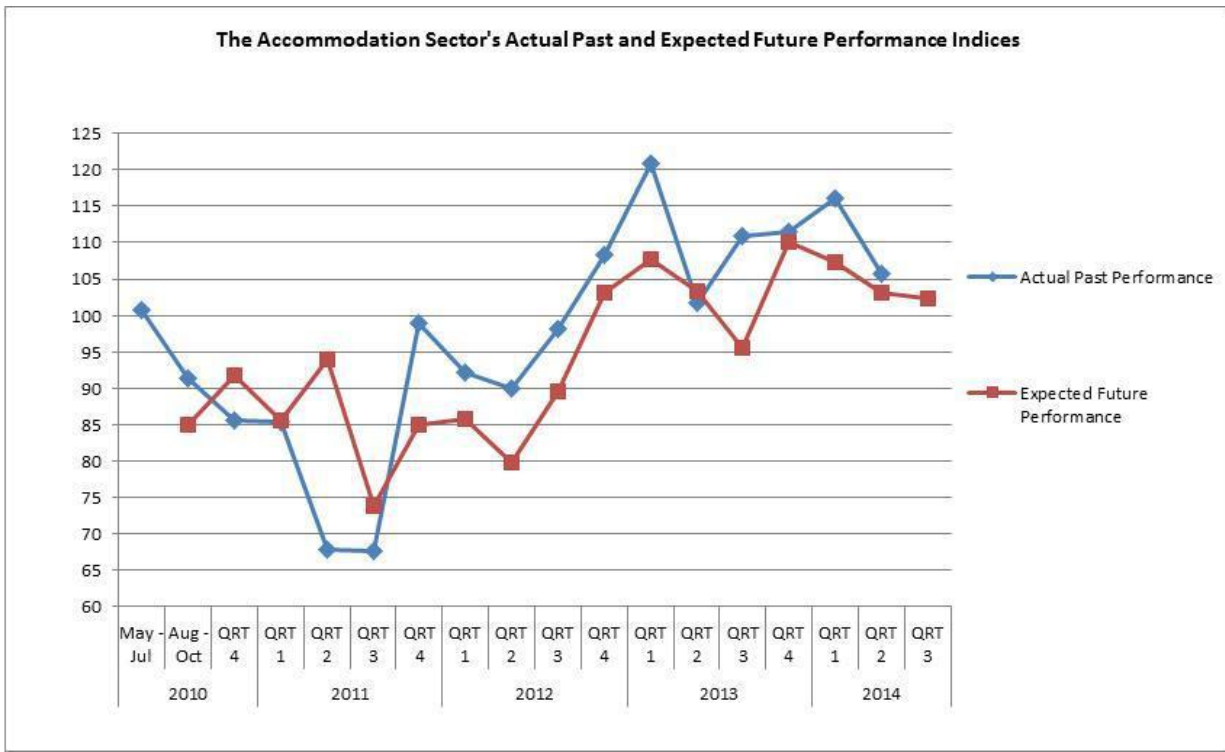
What is Normal?

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”.

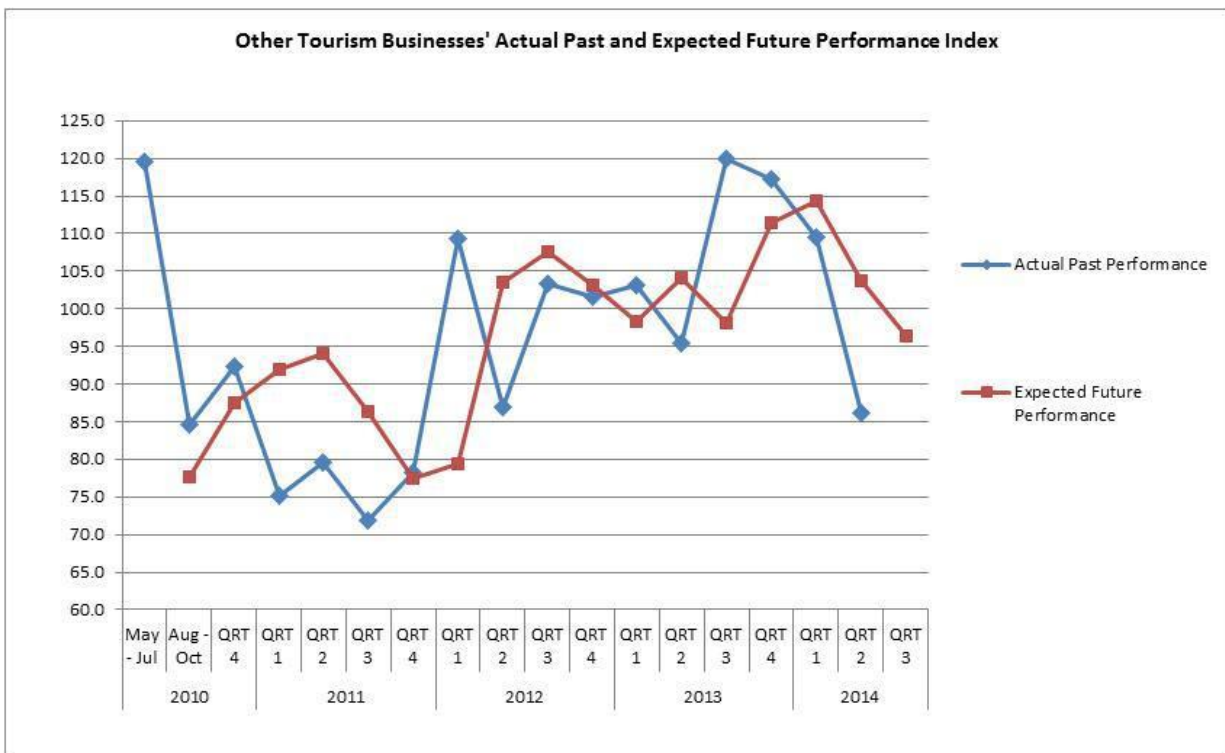
Normal is then calibrated to an index of 100. When the index shows Performance or Prospects at higher than 100, this indicates better than normal performance while, below 100 indicates worse than normal performance.

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

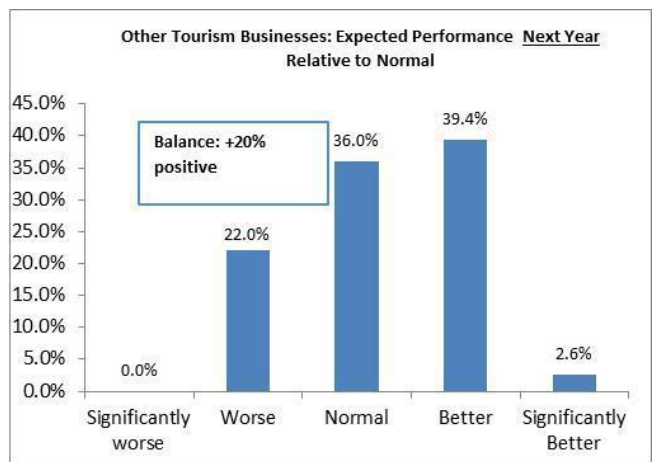
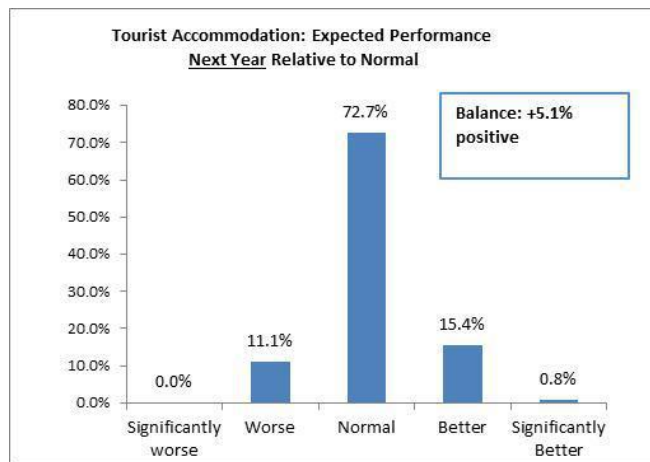
		Overall		Accommodation		Other	
		Actual	Forecast	Actual	Forecast	Actual	Forecast
2011	1 st Quarter	79.6	89.1	85.3	85.5	75.1	91.9
	2 nd Quarter	74.5	94.1	67.8	94.0	79.6	94.1
	3 rd Quarter	70.0	81.0	67.7	73.9	71.8	86.4
	4 th Quarter	87.3	80.7	98.9	84.9	78.3	77.4
2012	1 st Quarter	101.9	82.2	92.2	85.8	109.3	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	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		98.9		102.4		96.3

Balance Statistics

When taking into consideration business performance next year, on balance both the Accommodation Sector and Other Tourism Businesses have a positive outlook with +5,1% and +20% respectively.

The Accommodation Sector records another positive balance with the majority of respondents expecting normal business performance (72,7%) – this is the second consecutive longer term positive outlook compared to the predominately negative outlook over the previous three years. Other Tourism Businesses have a variety of opinions with the majority expecting either better (39,4%) or normal (36,0%) performance but a significant proportion expecting worse (22,0%) performance next year.

Next Year



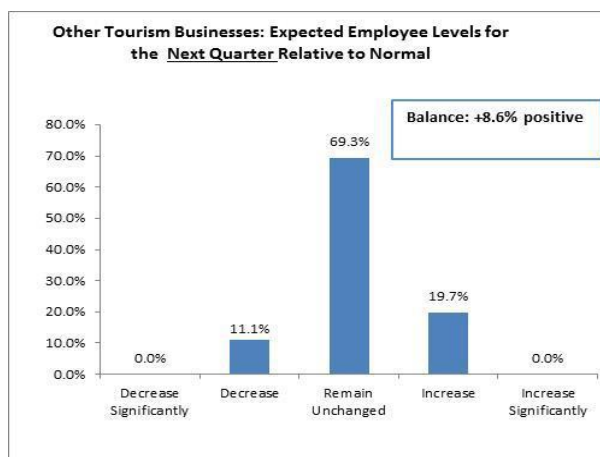
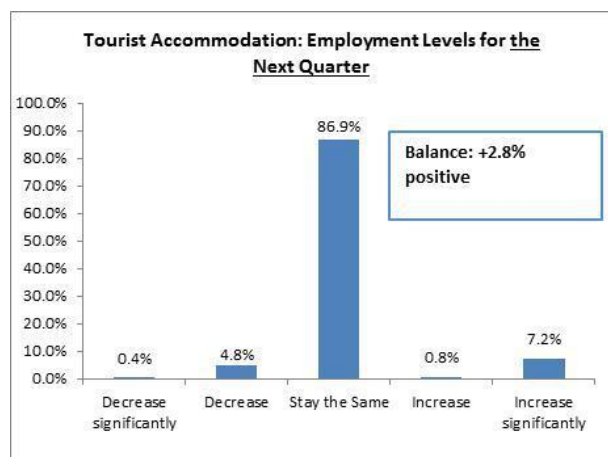
Summary of the Next Year Balance Statistic Historical Results

		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%

When looking at employment levels, the expectation for next quarter is that employment will largely stay the same / remain unchanged with 86,9% (Accommodation Sector) and 69,3% (Other Tourism Businesses) indicating this.

The Accommodation Sector after a considerably negative outlook for last quarter at -49,7% on balance show a slight increase in employment levels next quarter at +2,8% .The Other Tourism Businesses' outlook for employment continues to be positive with +8,6% on balance in spite of the anticipated lower than normal business performance index of 96,3.

Employment Levels

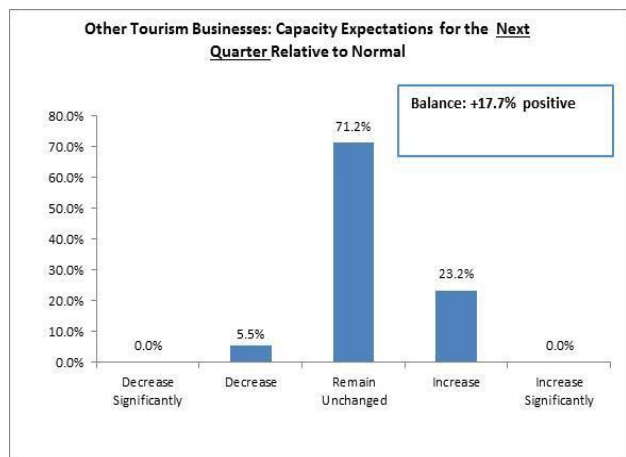
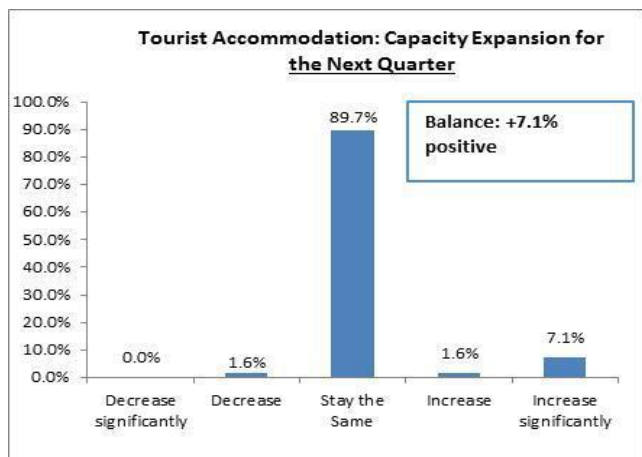


Summary of the Employment Balance Statistic Historical Results

		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%

With regard to the outlook for next quarter, capacity expansion continues the positive trend for both the Accommodation Sector and Other Tourism Businesses with a +7,1% and +17,7% on balance respectively. Other Tourism Businesses record a significant positive percentage with 23,2% of respondents indicating an expected increase in their capacity next quarter.

Capacity Growth Expectations



Summary of the Capacity Growth Balance Statistic Historical Results

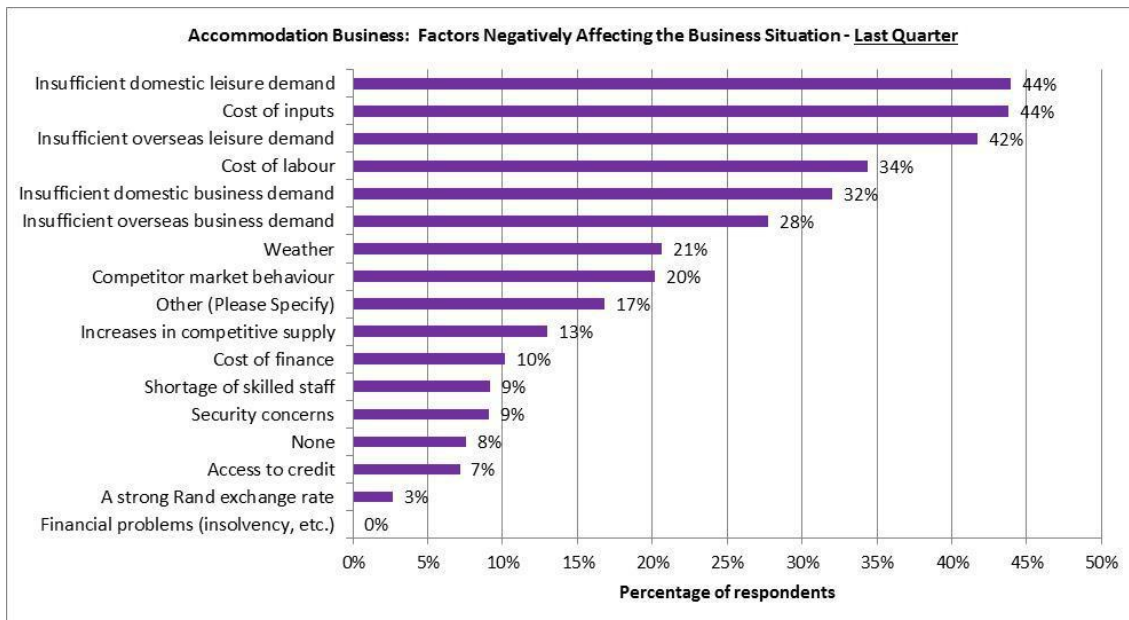
		Accommodation Sector	Other Sector
2011	1 st Quarter	+14.3%	-11.1%
	2 nd Quarter	+12.6%	+9.3%
	3 rd Quarter	+9.6%	+24.8%
	4 th Quarter	-3.3%	+21.0%
2012	1 st Quarter	+7.4%	+20.7%
	2 nd Quarter	+25.6%	+7.2%
	3 rd Quarter	+22.5%	+30.3%
	4 th Quarter	+11.1%	+26.1%
2013	1 st Quarter	+2.0%	+15.5%
	2 nd Quarter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

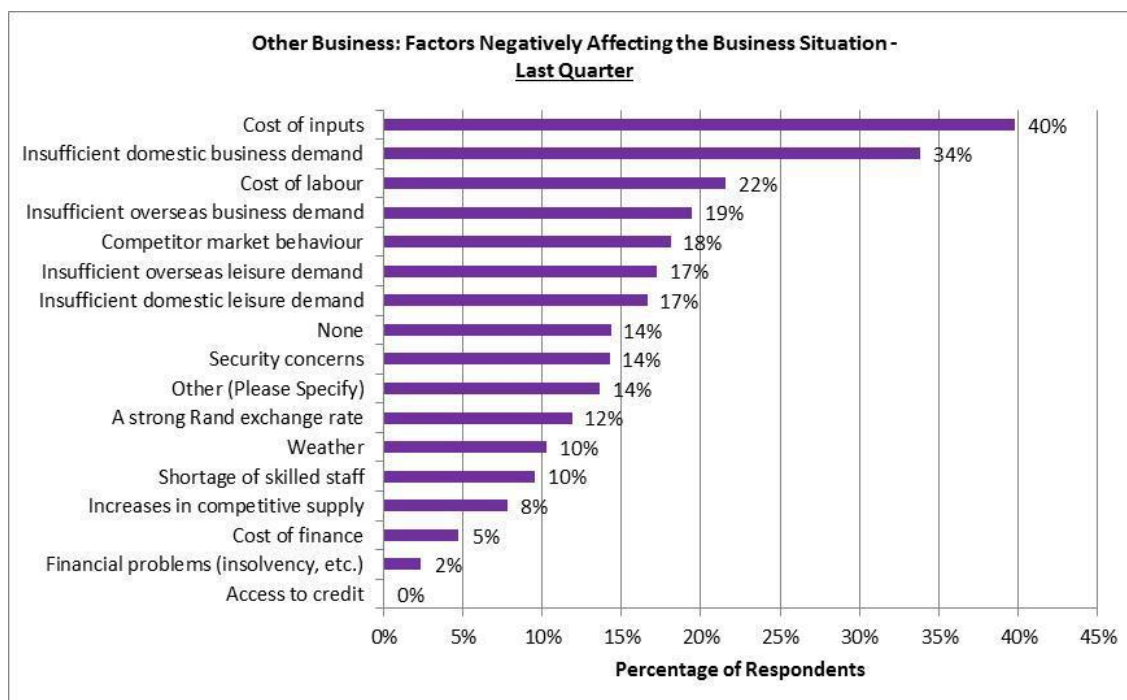
Factors Affecting Business Conditions

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

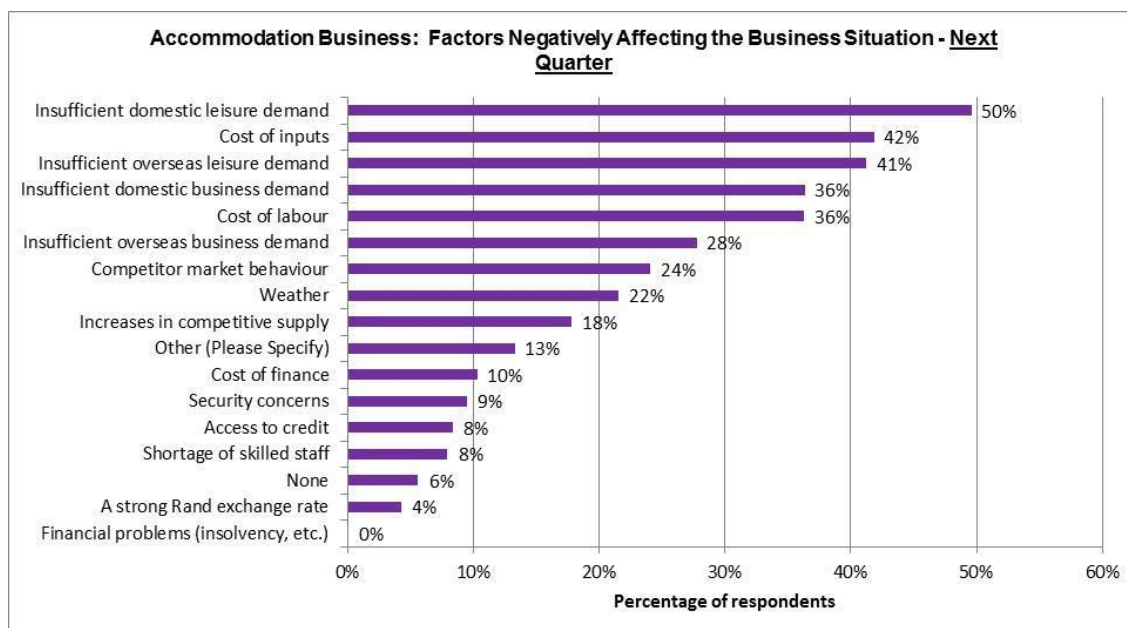
- Cost of inputs (44%) continues to be the most cited negative contributing factor towards business performance for the Accommodation Sector - the 8th consecutive time. Likewise, insufficient domestic and overseas leisure demand feature for this quarter with 44% and 42% respectively.
- Other negative factors cited for the Accommodation Sector include high utility costs, high travel costs (airfare, tolls and fuel), labour wage increases, the South African national elections, no government travel, the number of public holidays over the quarter, poor road conditions and the change in the patterns of the business traveller to either have a shorter stay at a destination or opt not to sleep over at all.
- Similar to the Accommodation Sector, Other Tourism Businesses cite cost of inputs (40%) as a major impediment to business performance last quarter (Q2 2014).
- Some specific other factors experienced by Other Tourism Businesses include high travel costs (airfare, tolls and fuel), negative media coverage on mining strikes as well as violence and the reluctance of consumers to pay entrance fees into certain attractions.





Negative Factors – Next Quarter

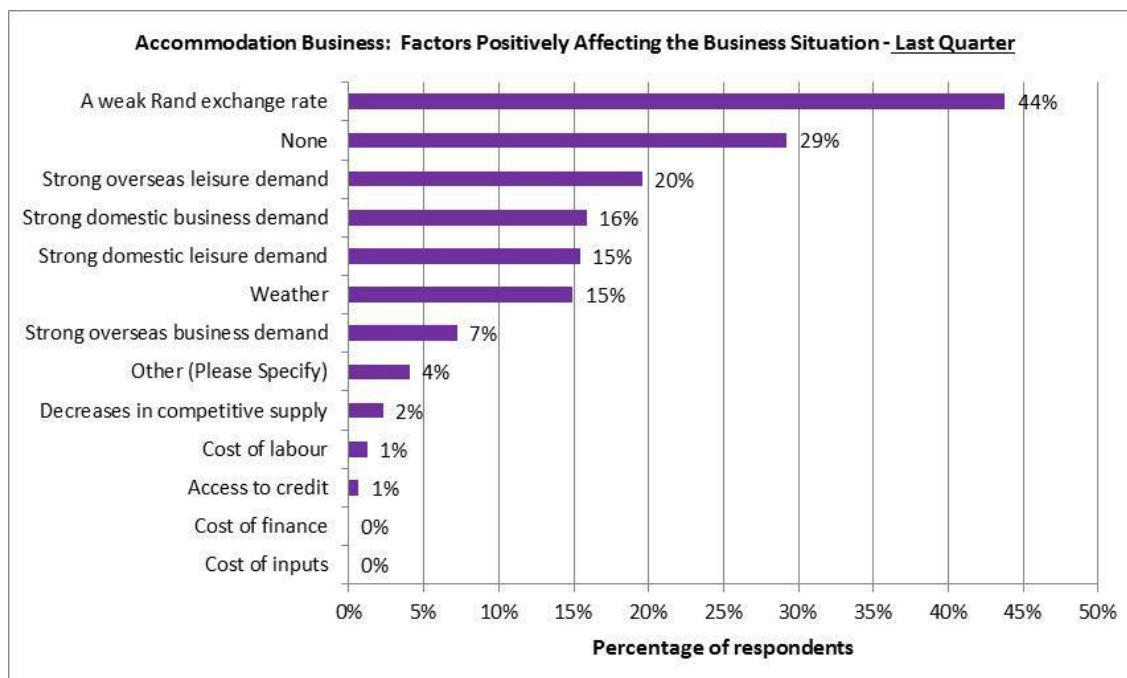
- Once again, cost of inputs continues to remain a significant negative contributing factor for next quarter with both the Accommodation Sector and Other Tourism Businesses with each of recording 42% of their respondents.
- In addition, the Accommodation Sector is citing insufficient domestic (50%) and overseas (41%) leisure demand as probable inhibitors affecting business performance for next quarter.

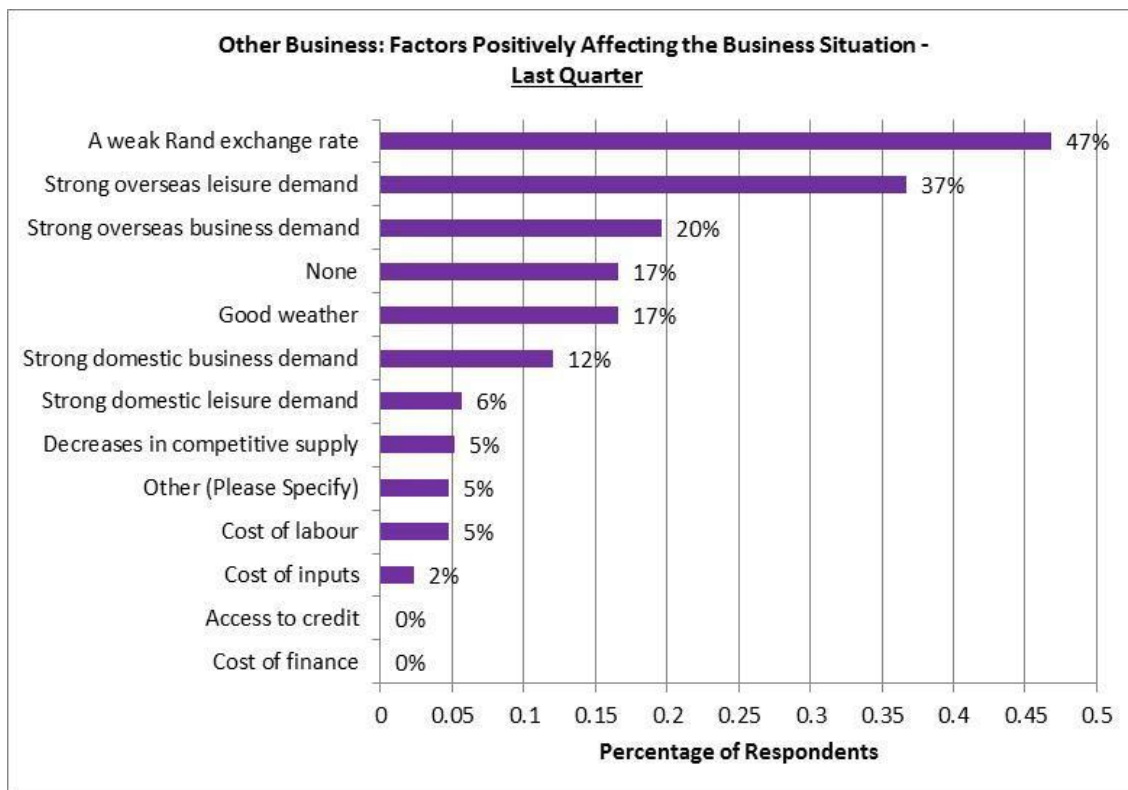




Positive Factors – Last Quarter

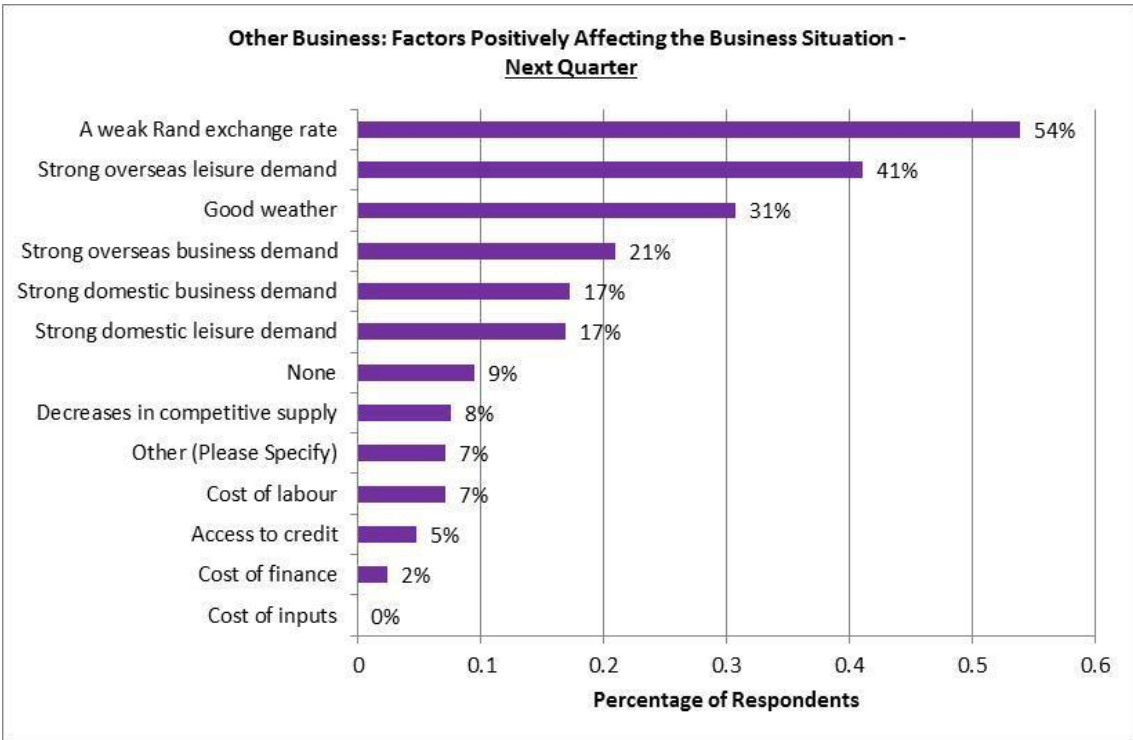
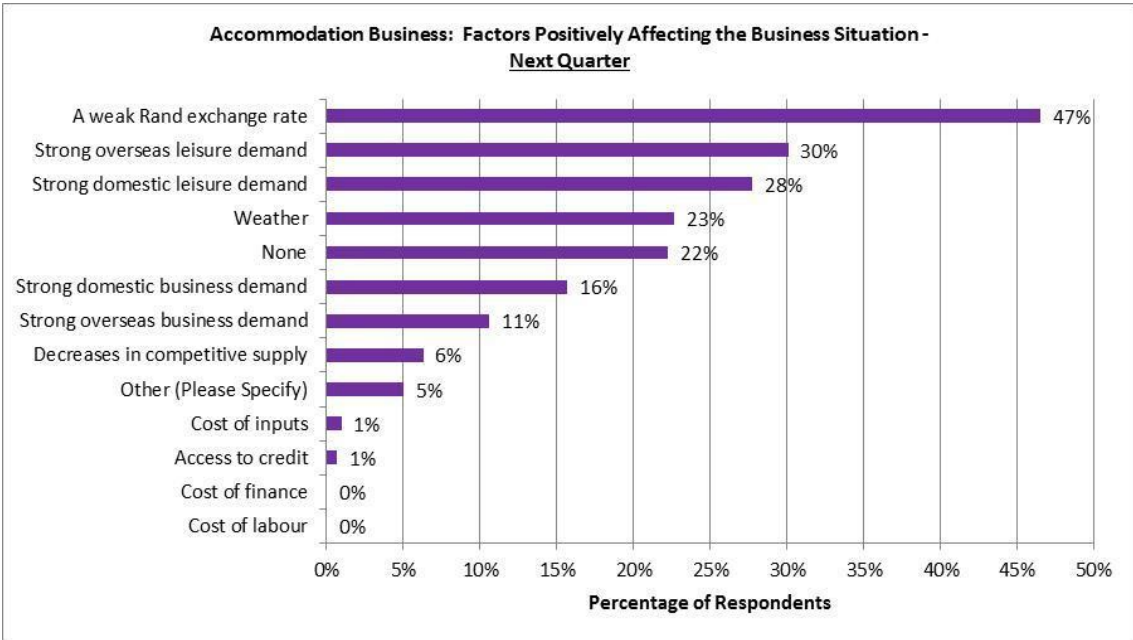
- Despite the weaker tourism demand last quarter for the majority of businesses, the weak rand featured strongly with almost half of the respondents citing it as a positive contributing factor at 44% (Accommodation Sector) and 47% (Other Tourism Businesses).
- The Easter weekend and lower fuel prices additional positive impacting factors.





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 (47%) and Other Tourism Businesses (54%) for the next quarter (Q3 2014). Other positive influences include exploring other advertising options, lower fuel prices, and hoped for improvement in South Africa's negative image.
- Accommodation Businesses and Other Tourism Businesses remain optimistic regarding all categories of tourism demand with particular expected strength in overseas leisure demand for the subsequent 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	42	43
2014	41	41		

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.

According to the RMB/BER Index, business confidence continues to remain low recording 41 index points for both Q1 and Q2 2014.

The tourism business index and the RMB/ BER index somewhat tracked each other in 2011 and 2012, although tourism reached better than normal levels in late 2012 when the BER which only attained this in early 2013. Both indices slipped into negative territory in the second quarter of 2013. The TBI recorded a performance index of better than normal for 3 quarters from Q3 2013, while the BER remained below normal indicating that the Tourism Industry experienced better business conditions than the market place in general. Although the tourism industry has dipped below normal for Q2 2014, it is still ahead of general confidence levels according to the RMB/ BER index.

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							
Quarterly Average	91.7											

There is a general downward tendency in business performance according to the SACCI BCI since early 2012, with only the slightest of upticks in 2014. The TBI, by contrast, shows a more positive performance since mid-2012.

The accommodation sector's performance in terms of occupancies and RevPAR as reported by Smith Travel Research - see the below table. Q2 June 2014 was not available at the time of preparation of this report.

	Quarterly Average Growth					
	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014 (April & May)
Occupancy Rates	+7.6%	+1.6%	+2.0%	+3.7%	+0.3%	+2.5%
RevPAR	+17.1%	+8.8%	+11.8%	+17.6%	+10.6%	+9.9%

The STR data corroborates a normal to better than normal performance for the hotel component of the accommodation sector with occupancy and RevPar increases.