



# TBCSA FNB Tourism Business Index

## 3<sup>rd</sup> 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 and 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 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.

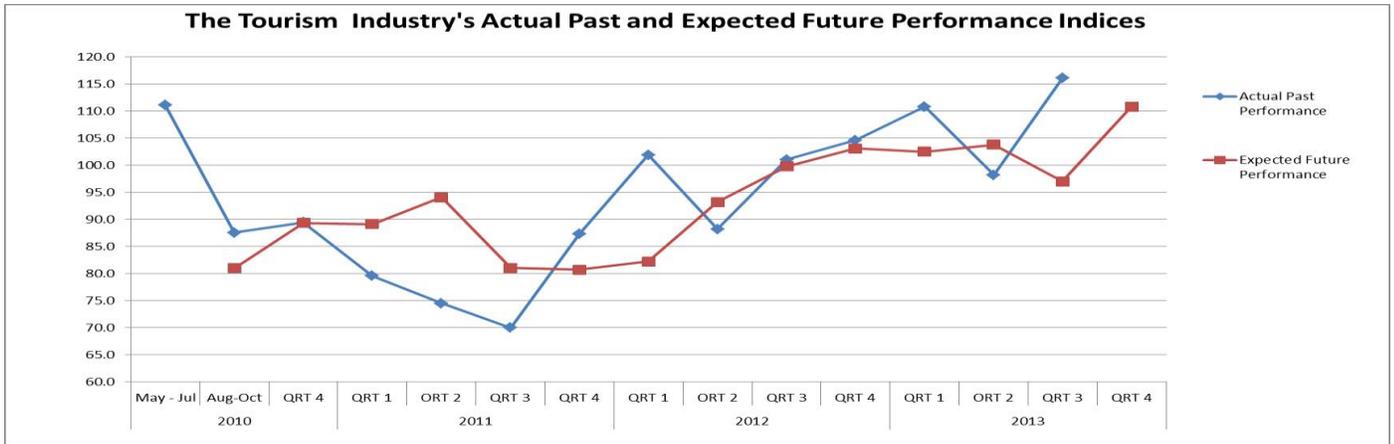
It is a business index that focuses on the performance and profitability of businesses operating in the sector, as oppose to a sector performance index. While in many instances the subtle distinction between the two approaches would not manifest in different results, in certain circumstances, they may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

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.

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## The Tourism Business Index



- In Q3, the TBI index indicates industry performance was significantly better than expected, reaching a high of 116,1 (compared to an expected index of 97,0) achieving the highest performance to date
- Industry performance in Q3 resumes the climb in the actual past performance seen in prior editions
- The overall expectation for 2013 Q4 is better than normal at 110,8 confirming that the industry is confident that operations will continue to steadily improve
- The Accommodation Industry expects performance for Q4 2013 to remain almost the same as the actual performance achieved in Q3 2013 with 110,8 and 110,0 respectively
- Other Tourism Businesses performed substantially higher than expected for Q3 2013 reaching a high of 120,1 compared to the expected 98,1. This was influenced largely by positive performance experienced by car hire, airline, conference centres and activities & attraction respondents. In addition to this, Other Tourism Businesses remain confident that Q4 performance will be better than normal at 111,4

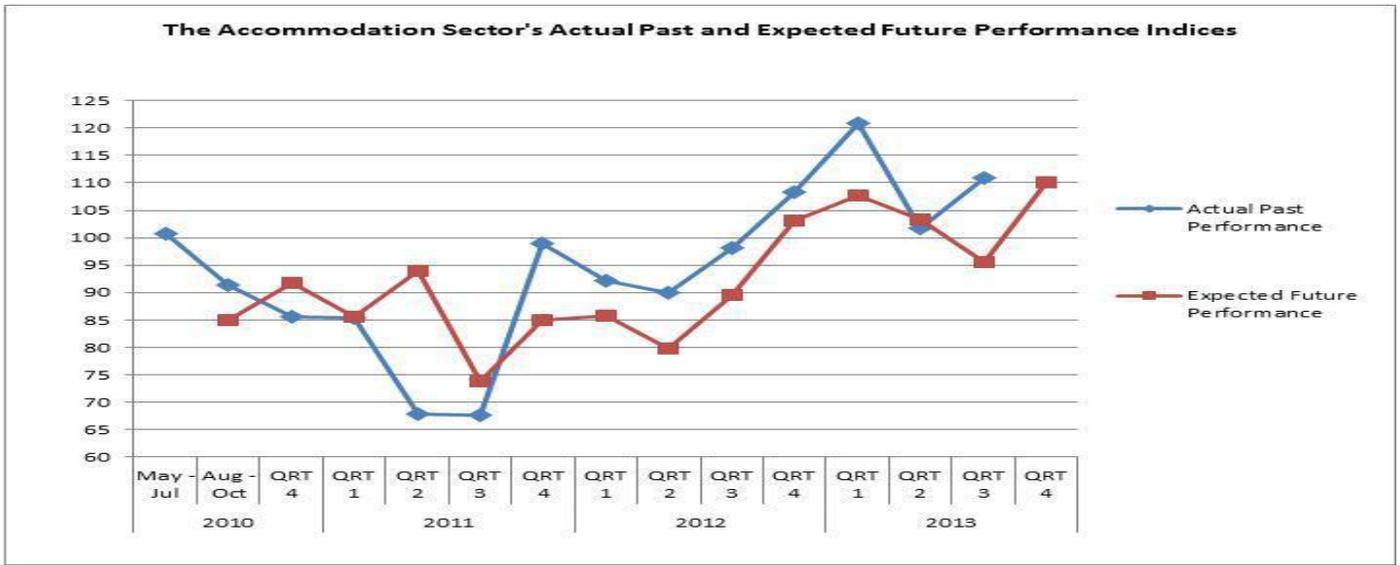
### What is Normal?

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”.

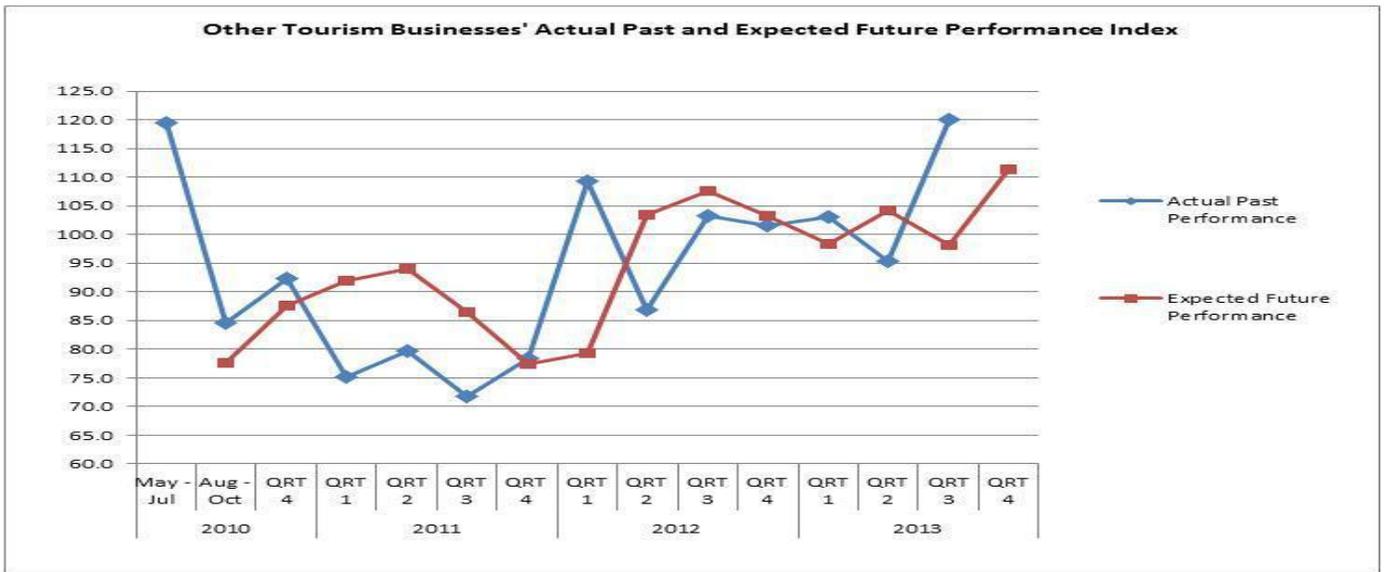
Normal is then calibrated to an index of 100. When the index shows Performance or Prospects at higher than 100, this indicates better than normal performance while, below 100 indicates worse than normal performance.

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 <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
2012	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
2013	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	120.1	98.1
	4 <sup>th</sup> Quarter		110.8		110.0		111.4

**Balance Statistics**

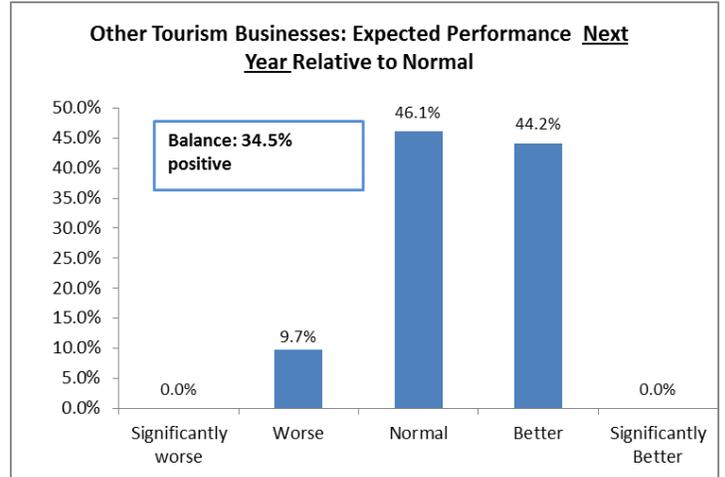
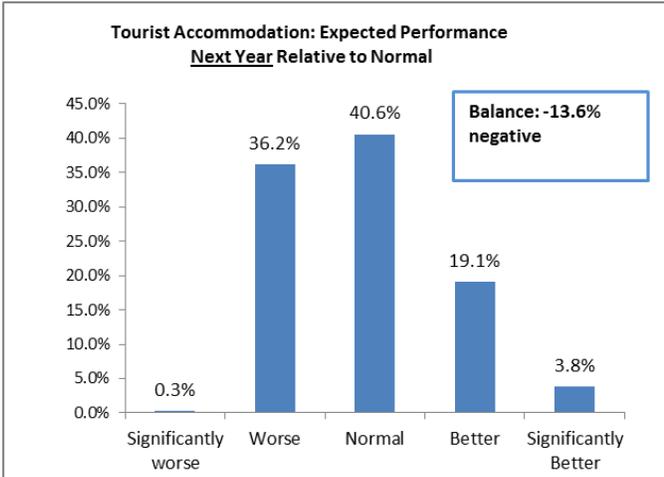
- When looking at next year, on balance the accommodation respondents have a negative outlook (-13,6%) which continues the pessimistic expectation shown in the prior edition. In fact the accommodation sector has only seen one quarter (1<sup>st</sup> Q 2013) with a positive outlook for the next year, since the inception of the index. So while trading conditions have improved to normal levels since late 2012, longer term confidence has not returned. Other Tourism Businesses are on balance significantly positive +34,5% about the outlook for the next year, which is the highest level achieved since the TBI Index commenced
- With regard to employment, the Accommodation Sector is positive on balance in this edition (+8,7%), an increase from the negative/neutral balance of -0,2% recorded in the previous edition. Other Tourism Businesses have gone from a neutral outlook in the last edition (0.0%) to a stronger positive outlook of +10,9% for Q4 2013. Notably, the majority of the respondents in both the Accommodation Sector and the Other Tourism Businesses still indicate that their employment levels will remain unchanged /stay the same. This indicates that overall employment growth in the sector remains muted into the future, but at least contraction in employment is not indicated.

**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.

- In terms of capacity expansion, the Accommodation Sector anticipates a positive balance (+14,1%) for Q4 2013. The majority of respondents (84,8%) expect their capacity to stay the same. A strong positive balance continues to feature for Other Tourism Businesses anticipating a positive +27,4%. 61,5% Of respondents expect their capacity to remain unchanged and 32,9% indicating an increase in capacity for the next quarter.

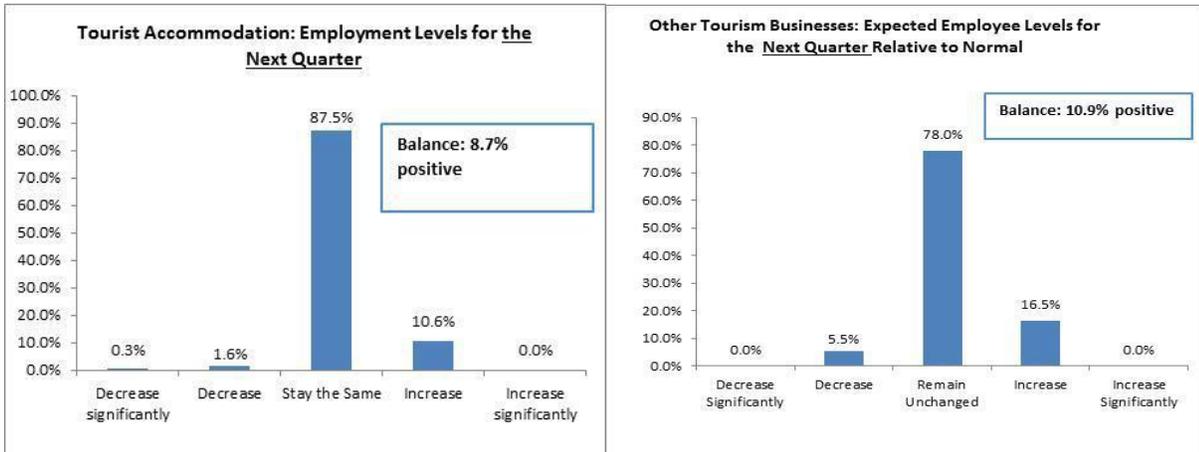
**Next Year**



**Summary of the Next Year Balance Statistic Historical Results**

		Accommodation Sector	Other Sector
<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%

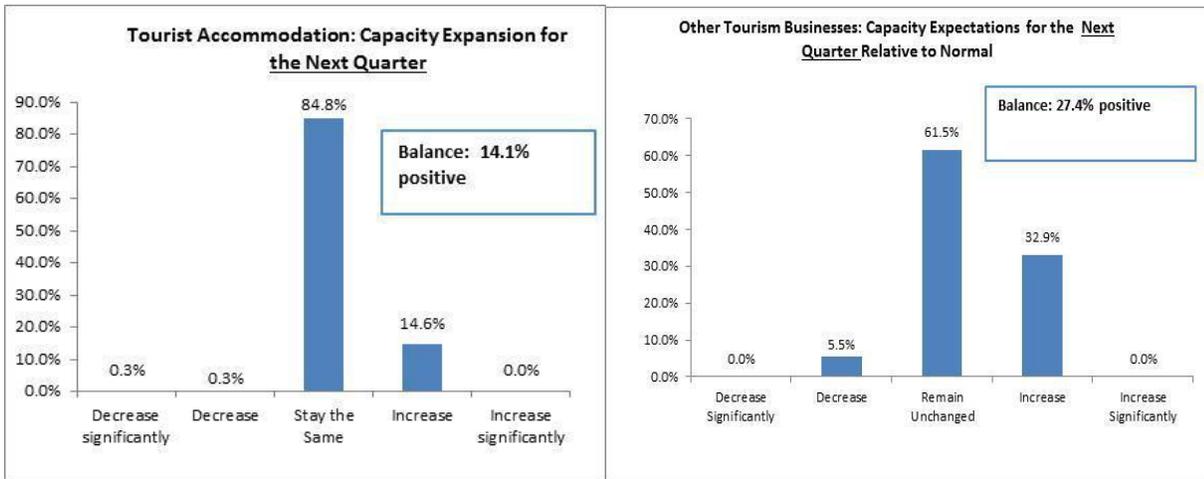
**Employment Levels**



**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%

**Capacity Growth Expectations**



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

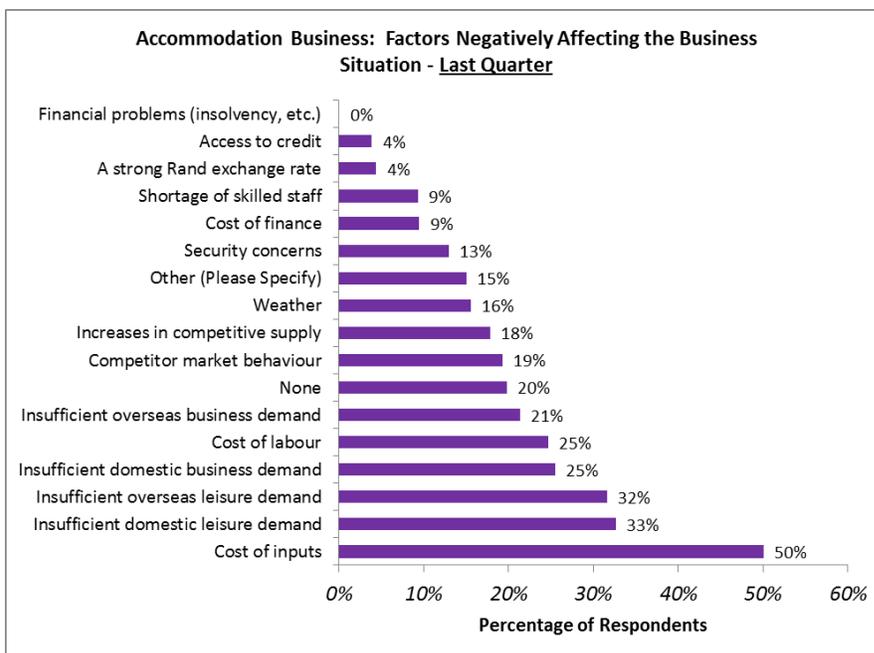
		Accommodation Sector	Other Sector
<b>2011</b>	1 <sup>st</sup> Quarter	+14.3%	-11.1%
	2 <sup>nd</sup> Quarter	+12.6%	+9.3%
	3 <sup>rd</sup> Quarter	+9.6%	+24.8%
	4 <sup>th</sup> Quarter	-3.3%	+21.0%
<b>2012</b>	1 <sup>st</sup> Quarter	+7.4%	+20.7%
	2 <sup>nd</sup> Quarter	+25.6%	+7.2%
	3 <sup>rd</sup> 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%

## 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 industry.

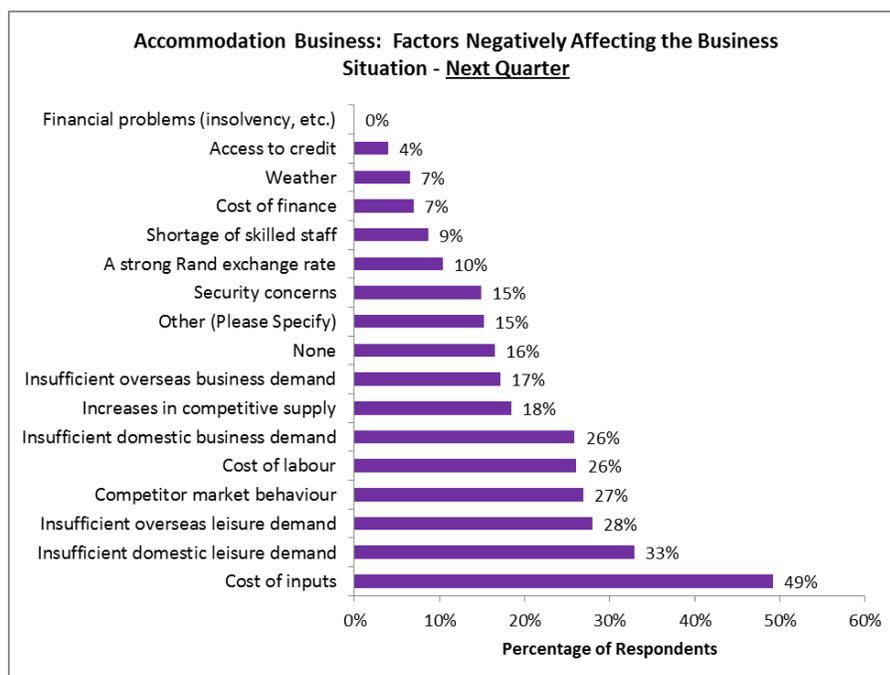
### Negative Factors - Last Quarter

- Cost of inputs remains one of the most cited negative contributing factors for both Accommodation Businesses (50%) and Other Tourism Businesses (31%) as it has been for the last 5 consecutive quarters.
- Overall, Accommodation Business and Other Tourism Business experienced insufficient overseas as well as domestic leisure demand during the last quarter (Q3 of 2013).
- For the Other Tourism Businesses competitor market behaviour was the most cited negative factor (36%) when only 20% of the respondents indicated this as a negative factor in the last edition (for Q2 of 2013).



### Negative Factors - Next Quarter

- In line with the respondents' predictions in the last edition, cost of inputs (49%), insufficient domestic leisure demand (33%) and insufficient overseas leisure demand (28%) are once again cited by the Accommodation Sector as negative impacting factors for the next quarter (Q4 of 2013).

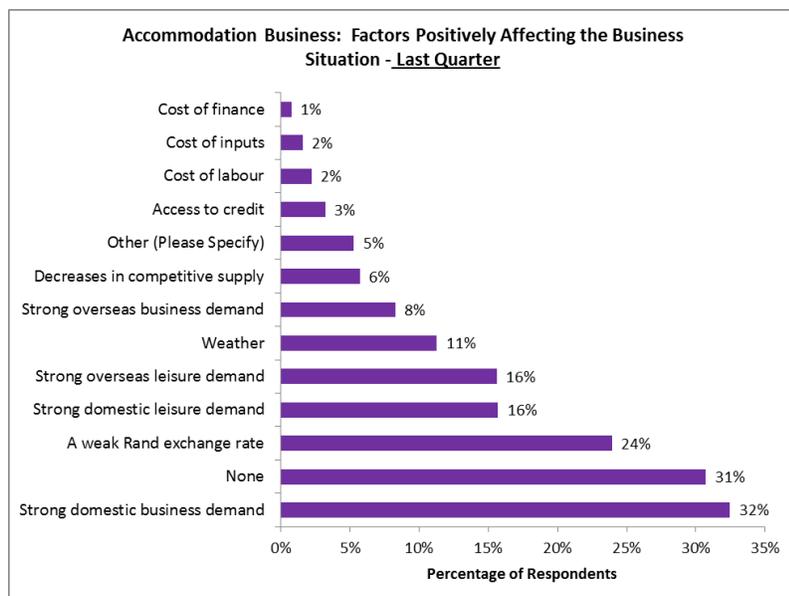


- In contrast, Other Tourism Businesses expect competitor market behaviour (49%) to be one of the major negative contributing factors for the next quarter. Furthermore, cost of inputs (31%), insufficient domestic business demand (30%) and increases in competitive supply (29%) were also identified by the Other Tourism Businesses as expected negative impacting factors for the next quarter (Q4).



### Positive Factors - Last Quarter

- Strong domestic business demand (32%) was cited by a number of respondents as a positive contributing factor for business performance in the Accommodation sector during the last quarter (Q3 2013).



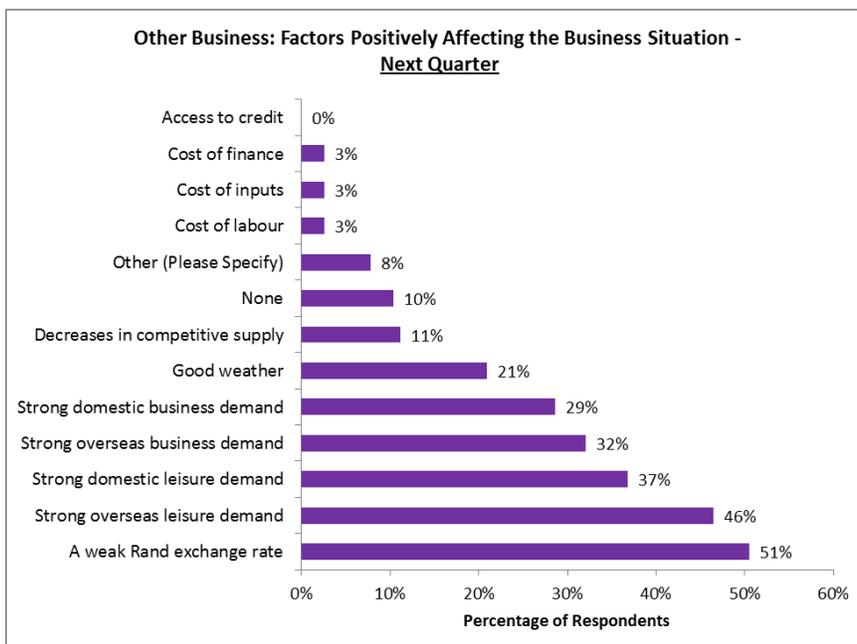
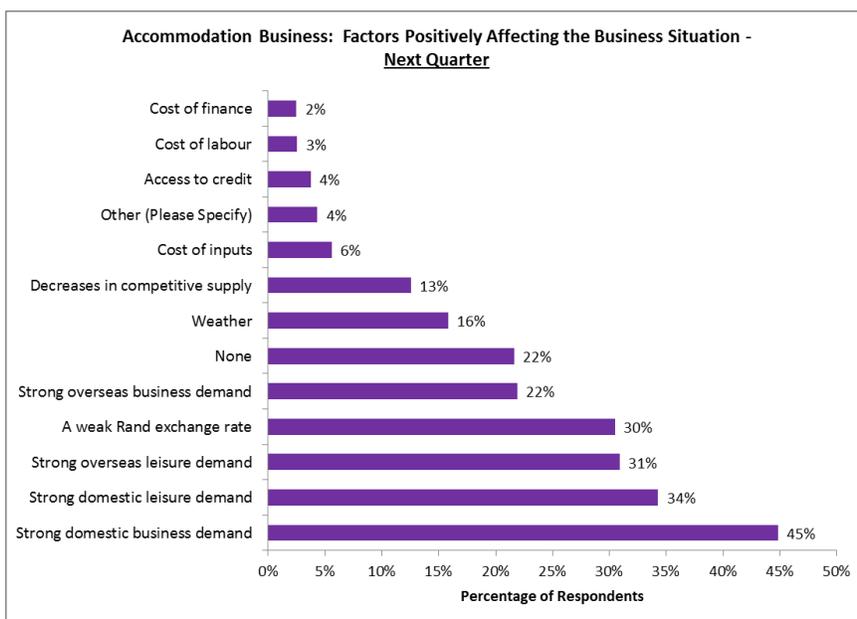
- A large proportion of both the Accommodation Businesses felt that no specific factors positively impacted their business performance in Q3 (31%).



- A weak exchange rate remains a significant positive contributing factor for Accommodation and Other Tourism Businesses, but particularly for the Other Tourism Sector with 45% of businesses citing it, up from 43% in the last edition.
- Other positive contributing factors identified were the drop in fuel prices experienced during Q3, the fact that operators had reduced their rates to be more competitive as well as improved marketing efforts.

### Positive Factors – Next Quarter

- A weak Rand exchange rate is forecasted by the majority of business (51%) in the Other Tourism Sector to have a positive impact on business performance in the next quarter (Q4 2013), while only 30% of the businesses in the Accommodation Sector cited this as a positive factor.
- Strong domestic business and leisure demand as well as a strong overseas leisure demand is expected by many of the respondents (31%-45%) to be the positive contributing factors for the Accommodation Sector in the next quarter (Q4 2013). This is not surprising as Q4 is a traditional peak period for leisure business, especially within the accommodation sector and these three factors were also cited for Q4 last year by many of the accommodation businesses respondents (38%-32%) as the expected positive impacts.



## 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	

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

The RMB/BER Index declined by six index points in Q3 to 42 from 48 in the previous quarter, which indicates that close to three fifths of the respondents rated prevailing business conditions as unsatisfactory.

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 3<sup>rd</sup> and 4<sup>th</sup> quarters of 2012, while the RMB/BER index only reached positive territory again in the first quarter of 2013. Both indices decreased again to slip into negative territory in the second quarter of 2013. However, the TBI has recorded a performance index of 116,1 against 100 for the third quarter of 2013, indicating better than normal business conditions for the operators in the tourism industry while the RMB/BER recorded 46 against a normal of 50 in Q3 2013. This indicates that the Tourism Industry is experiencing s better business conditions than generally in the market place at the moment.

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 -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	90.7	90.5				

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 average (97,4). In Q2 2013, the quarterly average decreased to 91,0, again indicating a general decrease in business confidence when compared to Q1 2013 and is also below the Q2 2012 average of 94,0. The September BCI results were not released at the time of this publication, so the Q3 quarterly average is not available, however in July 2013 the index rose ever so slightly to 90,7 and then decreased again with 0,2 index points to 90,5 in August 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 not indicated by the TBI.

Available tourism statistics and data also report similar performance patterns as the TBI. Overseas tourist arrivals to South Africa reported by Stats SA decreased marginally in Q2 2013 compared to Q2 2012 but growth of 7,6% was experienced in the first quarter 2013.

The accommodation sector's performance in terms of occupancies and RevPAR as reported by Smith Travel Research also showed stronger performance in Q1 2013 compared to Q2, and firmer growth coming through in July and August statistics so far, as shown in the table below.

	2013 Quarterly Average Growth		
	Q1	Q2	Q3 ( Only July and August Data)
Occupancy Rates	7.6%	1.6%	2.6%
RevPAR	17.1%	8.8%	13.1%

Overall positive performance reported in the TBI in 2012, particularly for the accommodation sector is underscored by year to date strong growth in RevPAR performance at 13,4% growth over 2012.