



# TBCSA FNB Tourism Business Index

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. 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, however for the first two editions; the TBI was still in the piloting phase. 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.

For this edition of the TBI, as previously, the accommodation sector and non-accommodation operators have an adequate sample size, enabling two sub-indices to be produced. The overall tourism index includes accommodation operators and responses from airlines, tour operators, coach operators, vehicle rental companies, travel agents, retail outlets, conference venues and attractions.

The responses from the airlines, scheduled coach operators and vehicle rental companies, are regrettably still too few to allow for the development of a tourism transport sub-index. The TBCSA would like to encourage businesses in tourism and particularly in these sectors to participate in the TBI survey to allow for a transport sub-index to be developed in the future.

### 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.

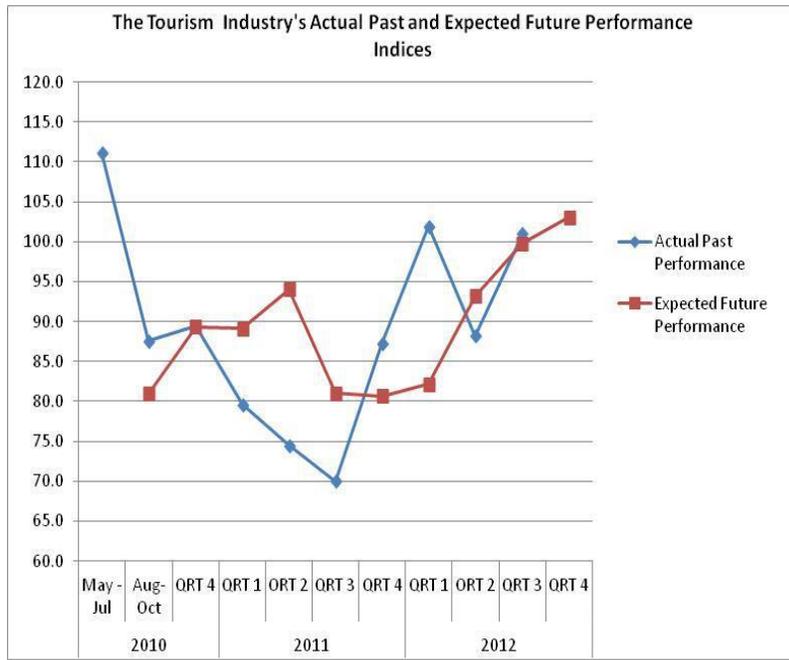
It is a business index that focuses on the performance and profitability of businesses operating in the sector, as oppose to a sector performance index. While in many instances the subtle distinction between the two approaches would not manifest in different indices, in certain circumstances, they may 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 pilot surveys did not follow exact quarters. The first two pilots 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



- The Q3 TBI moved upwards to reach 101, an overall performance just surpassing the normal level, and much better than Q2, which was an index of 88,2. This is the second quarter this year, after Q1 at 101,9, in which performance has attained normal levels, after 6 quarters of below normal performance from mid 2010.
- Performance for Q3 was also in line with expectations at 99,8; compared to the actual 101 achieved.
- Q4 expectations are roughly in-line with current performance at 103,1, just nudging up slightly. This 103,1 outlook, though, is the highest that the TBI has seen since inception and indicates the extent to which the industry is recovering from the recessionary impacts and excess of supply it suffered post 2010.
- The TBI index for the Accommodation Sector in Q3 was slightly lower than normal at 98,1, but still well up on the 89,9 of Q2, while the Other Tourism Businesses recorded a higher Q3 index of 103,3 showing an even greater improvement on the Q2 86,9 index.
- Compared to expectations for Q3, the Accommodation Sector performed better than expected (98,1 compared to 89,6), while Other Tourism Businesses forecast of 107,6 was somewhat higher than the 103,3 achieved.

### What is Normal?

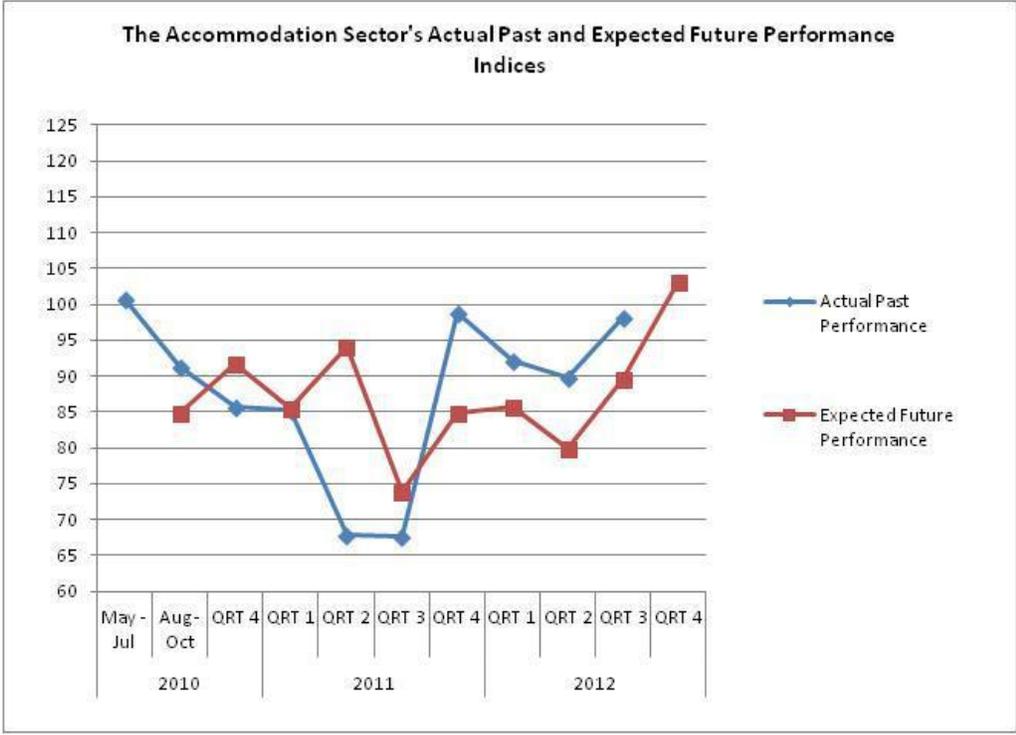
The reported changes or expected changes in demand and profitability are expressed relative to the expected normal levels of business for the relevant period. Normal is defined as “the level of acceptable business performance in line with the realistic long term average performance you would hope to 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.

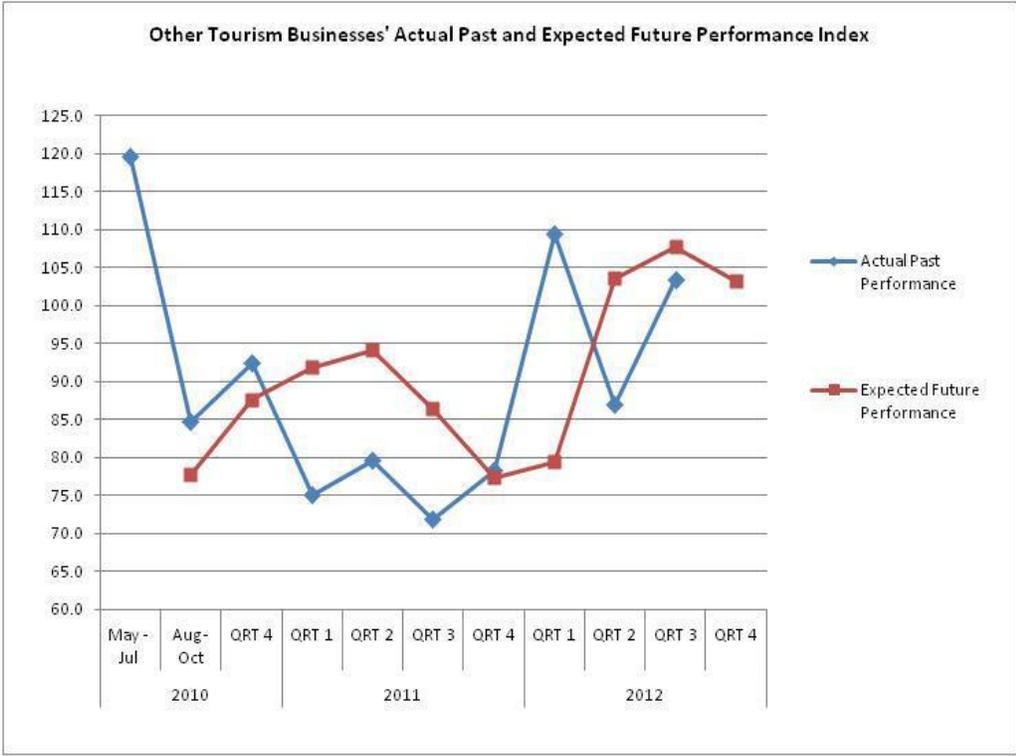
If all business surveyed indicate a significantly better than normal performance across all dimensions covered, the index could register a maximum high of 200, while significantly poor performance for all businesses would result in an index of 0.

2 – 3 Years is usually required before a business tendency index can be said to be fully bedded-down. This allows performance and prospects to be compared over time and any underlying response bias that could impact on the index to be adjusted for.

**Accommodation Index**



**Other Tourism Business Sub Index**



Overall businesses on average consider operating conditions and profitability to be around the normal level in Q3, with expectations for Q4 good and moving slightly further above normal.

### **TBI Summary**

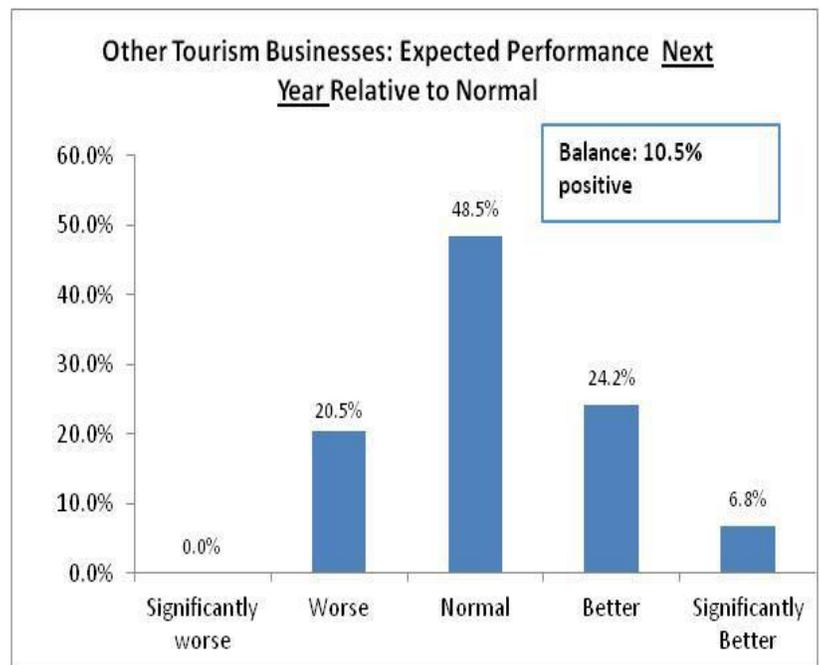
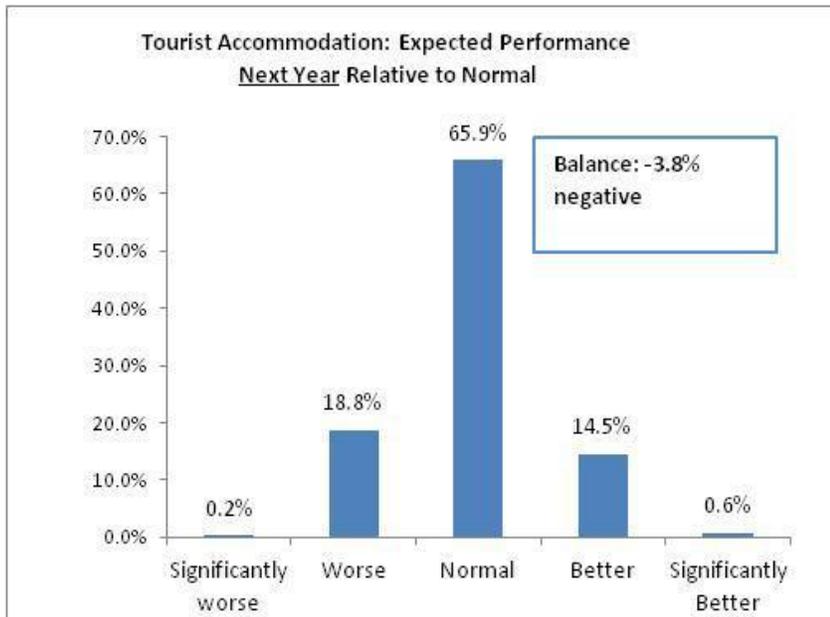
		Overall		Accommodation		Other	
		Actual	Forecast	Actual	Forecast	Actual	Forecast
2011	1 <sup>st</sup> Quarter	79.6	89.1	85.3	85.5	75.1	91.9
	2 <sup>nd</sup> Quarter	74.5	94.1	67.8	94.0	79.6	94.1
	3 <sup>rd</sup> Quarter	70.0	81.0	67.7	73.9	71.8	86.4
	4 <sup>th</sup> Quarter	87.3	80.7	98.9	84.9	78.3	77.4
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		103.1		103.1		103.2

### **Balance Statistics**

- However, when looking at next year, on balance the accommodation respondents expect a very slightly poor year at -3,8%, but this has been improving steadily every quarter from a low of -70,3 in Q3 2011. Other Tourism Businesses are on balance +10,5% positive about the outlook for the next year, which is actually a small decline from previous annual outlooks in the last two quarters at +17,2% and +15,3%.
- In both Accommodation and Other Tourism Businesses, there is a positive balance (+22,5% and +30,3% respectively) regarding capacity expansion for Q4. The majority of respondents expect their capacity to remain unchanged, but a reasonable number of respondents are indicating increases in capacity with very few indicating decreases.
- In terms of employment, the Accommodation Sector is slightly positive on balance for Q4 (+6,4%), compared to the negative balance statistic recorded for Q3 (-3,9). Other Tourism Businesses have gone from a somewhat positive outlook for Q3 (+7,4%) in the last edition to a marginally negative outlook for Q4 (-0,6%), with the majority still indicating that their employment levels will remain unchanged.

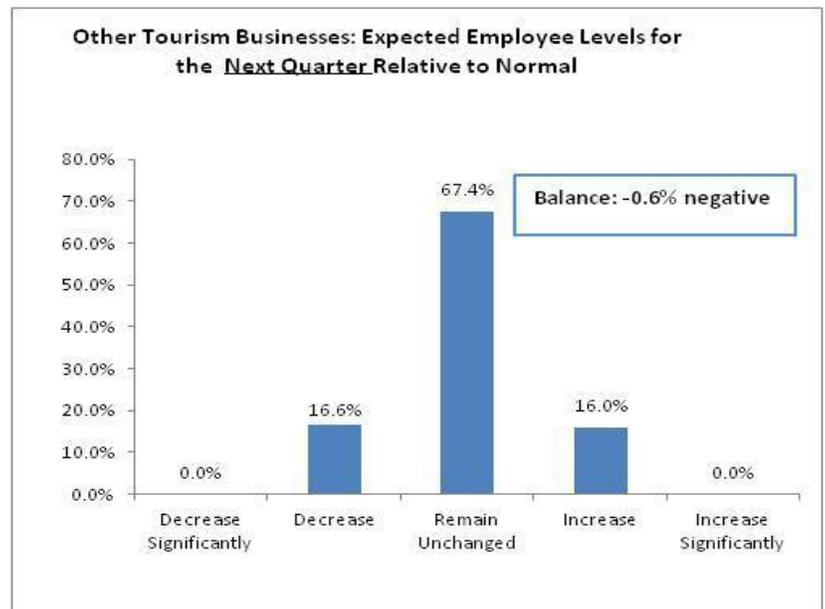
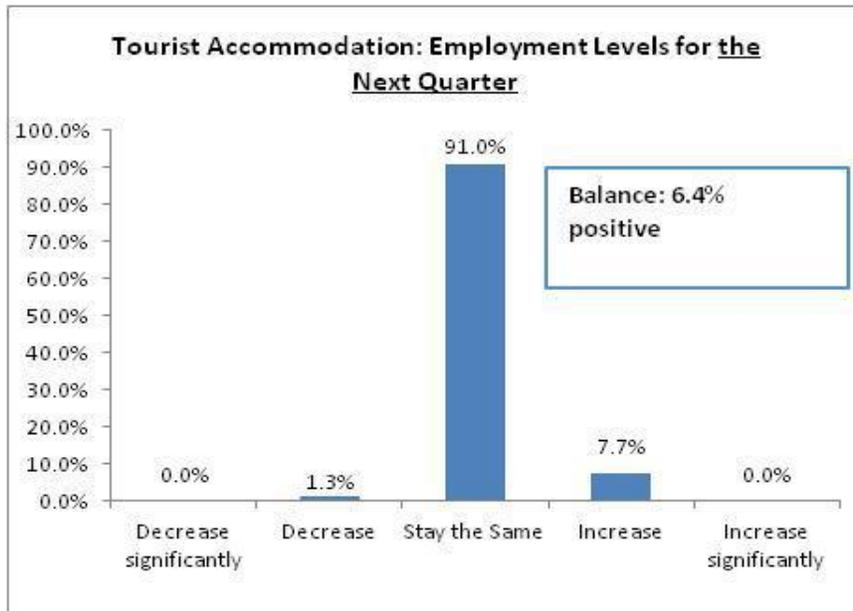
#### **The Balance Statistic**

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
<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%

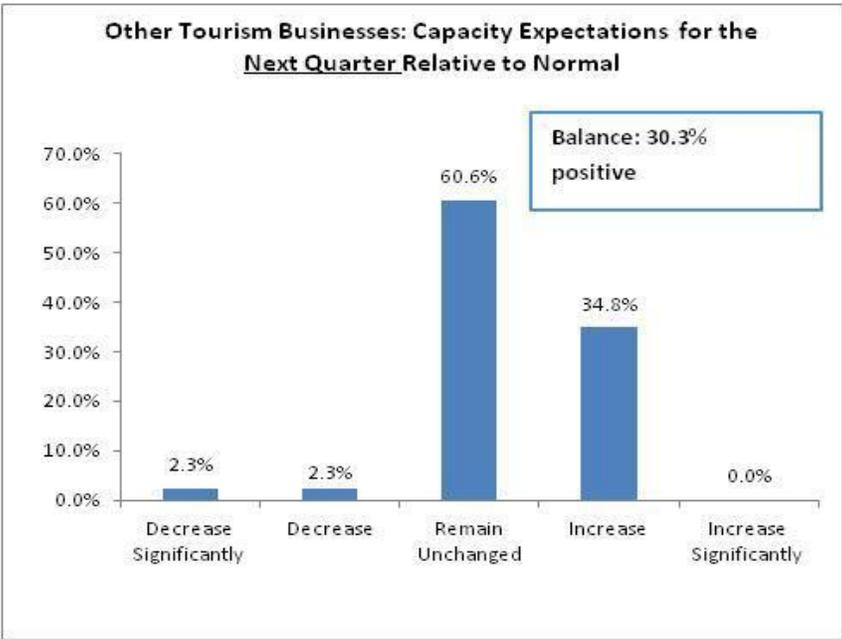
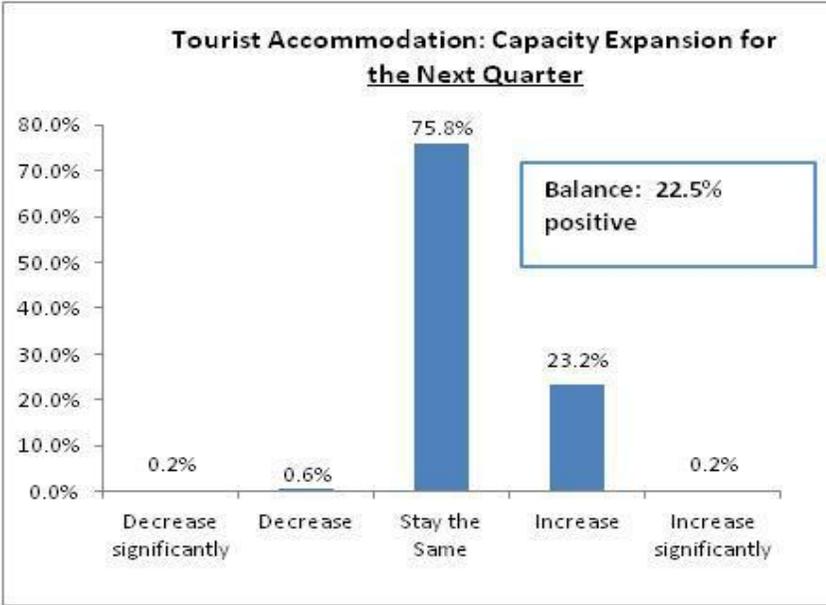
## Employment Levels



## 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%

**Capacity Growth Expectations**



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

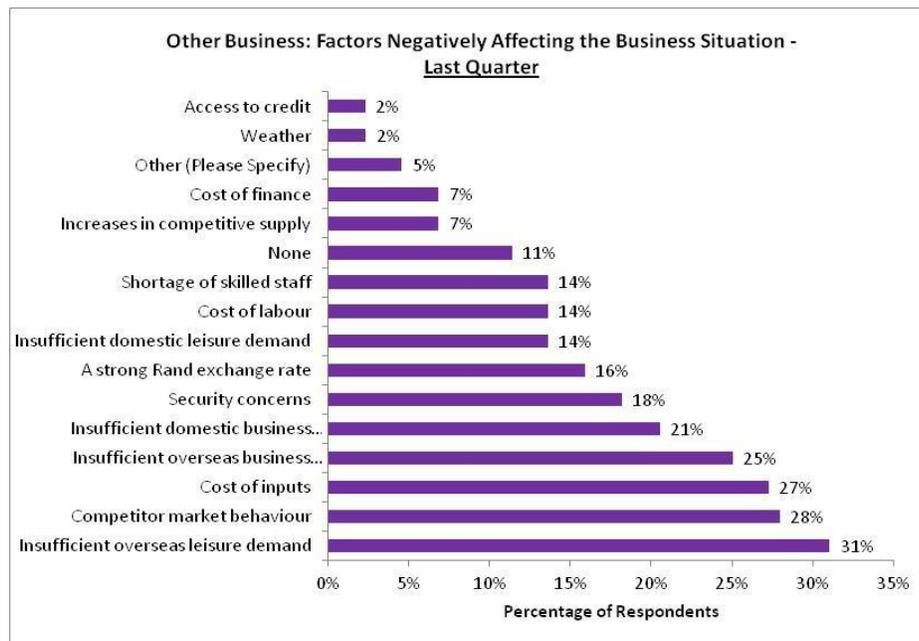
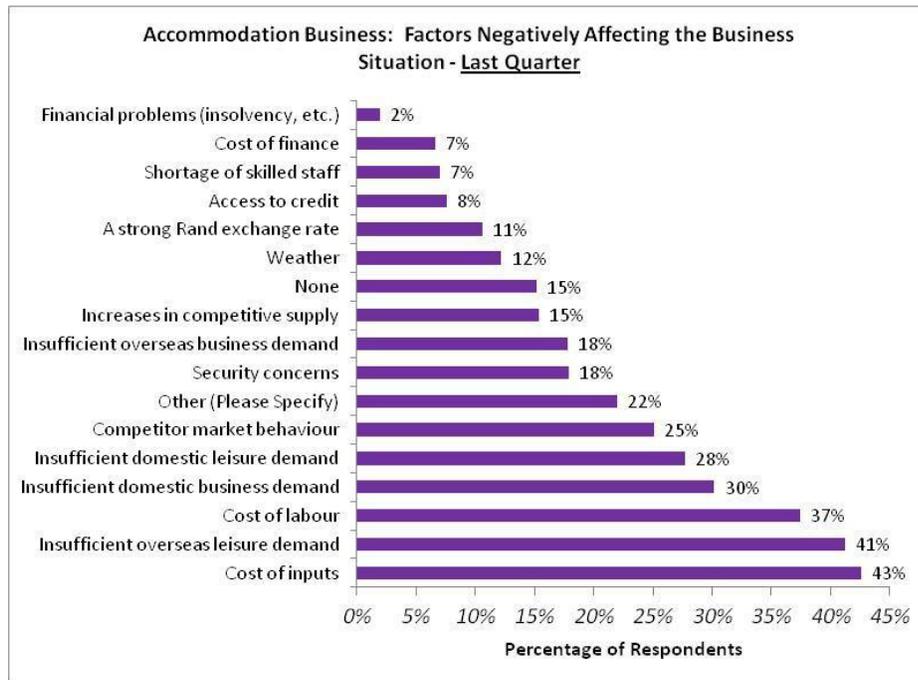
		Accommodation Sector	Other Sector
<b>2011</b>	1 <sup>st</sup> Quarter	+14.3%	-11.1%
	2 <sup>nd</sup> Quarter	+12.6%	+9.3%
	3 <sup>rd</sup> Quarter	+9.6%	+24.8%
	4 <sup>th</sup> Quarter	-3.3%	+21.0%
<b>2012</b>	1 <sup>st</sup> Quarter	+7.4%	+20.7%
	2 <sup>nd</sup> Quarter	+25.6%	+7.2%
	3 <sup>rd</sup> Quarter	+22.5%	+30.3%

## Factors Affecting Business Conditions

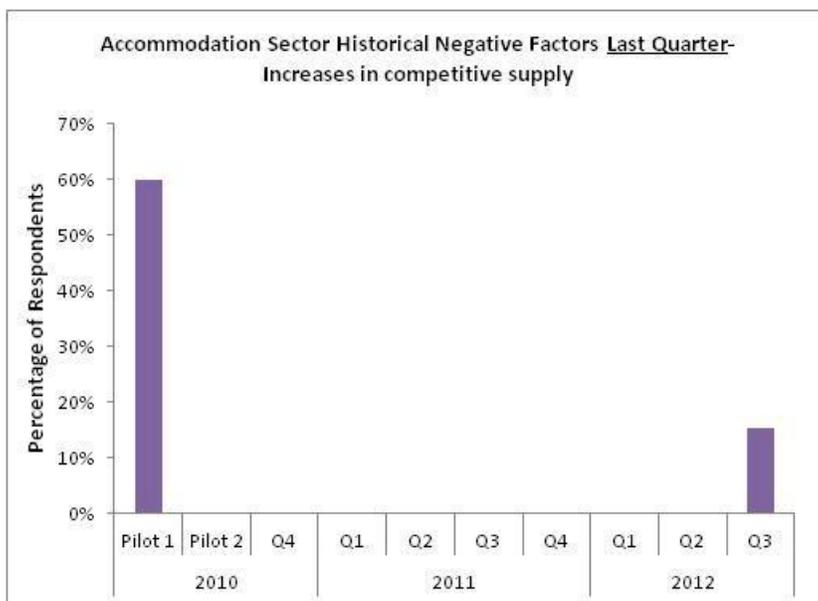
When considering the performance of the Tourism Industry, this report considers both positive and negative factors which are possibly impacting on the performance of the different sub-sectors.

### Negative Factors - Last Quarter

- Once again cost of inputs was cited by a significant number of businesses (43%) as being an impediment to business performance in Q3. This was closely followed by insufficient domestic leisure and business demand, cost of labour and insufficient overseas demand. The rising cost of fuel, electricity and the looming e-tolls in Gauteng were all still mentioned by many of the respondents as negative impacting factors.

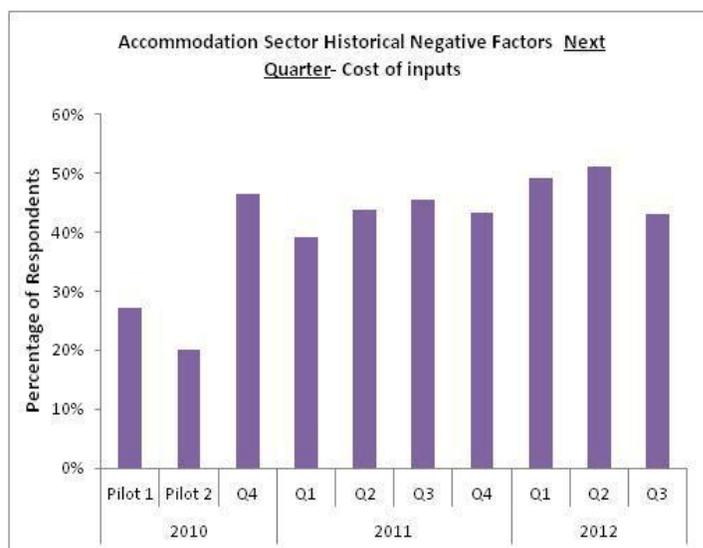
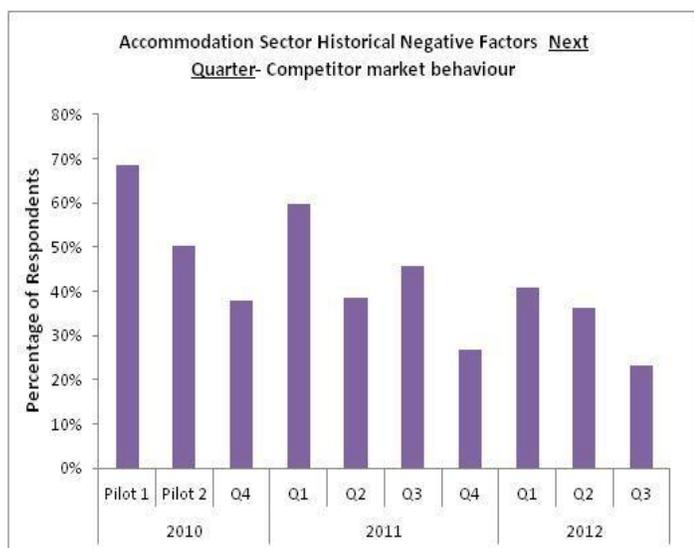


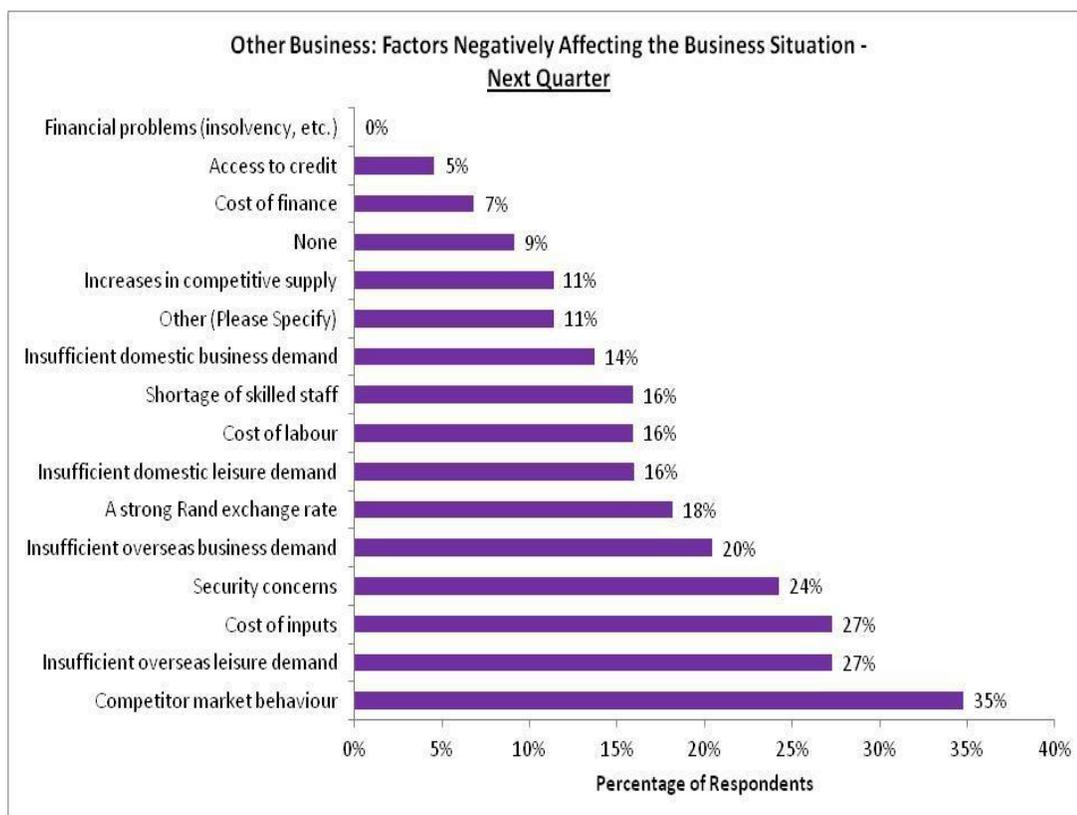
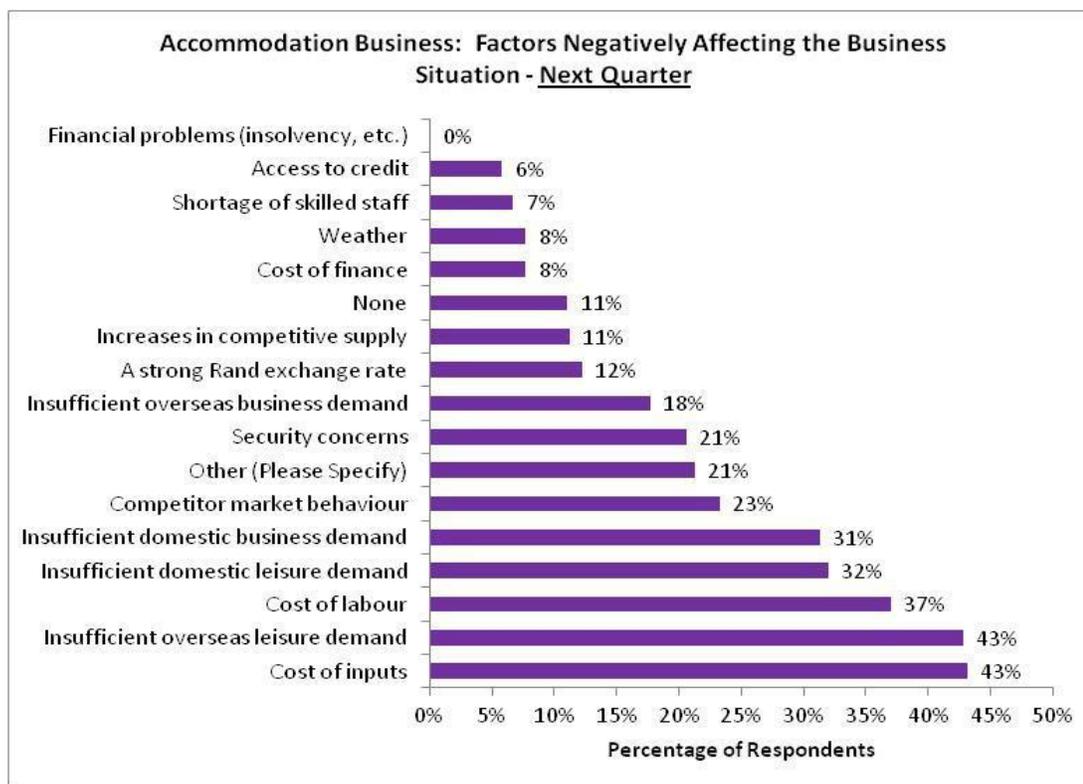
- Increase in competitive supply was cited for the first time since the Pilot phase as a factor for the Accommodation Sector in respect of their business performance in Q3. This indicates that increases in competitive supply in the Accommodation Sector are starting to impact negatively on business performance after the oversupply felt after 2010.
- This indicates that the industry was correct in its expectations last quarter (also for the first time since the Pilot phase) that increases in competitive supply would impact negatively on their businesses.



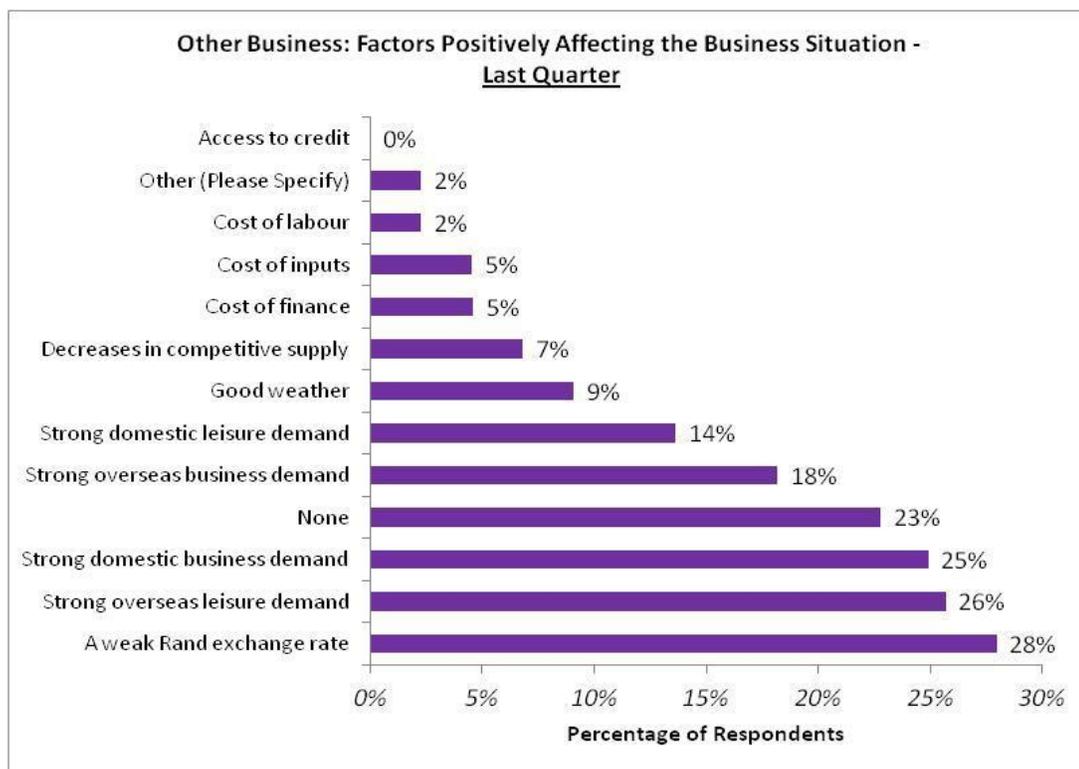
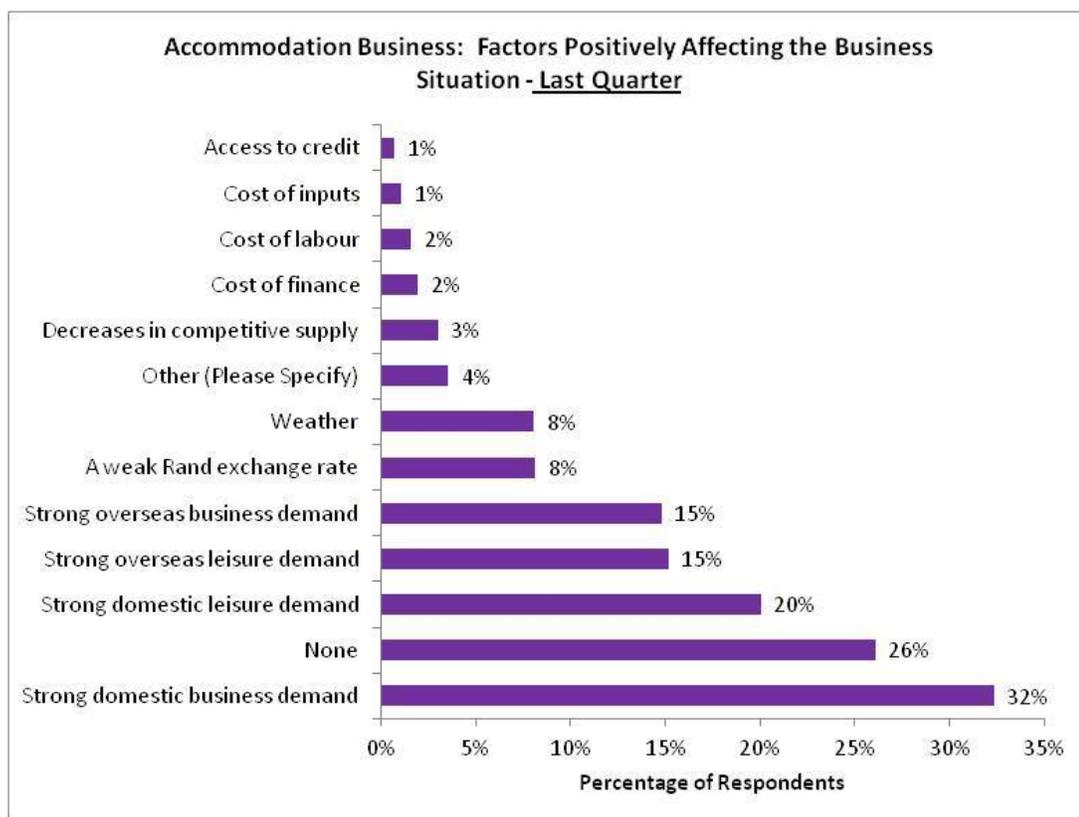
**Negative Factors - Next Quarter**

- Once again cost of inputs (43%), insufficient overseas leisure demand (43%), cost of labour (37%) and insufficient domestic leisure and business demand (32%-31%) are predicted by the Accommodation Sector as negative impacting factors for the next quarter (Q4).
- For the Other Tourism Businesses, in addition to the factors affecting the accommodation sector, competitor market behaviour (35%) and security concerns (24%) are added to the list by many of the respondents as negative impacting factors expected in Q4.
- In the Accommodation Sector competitor market behaviour has been declining in the number of respondents who cite this as an expected negative impacting factor on their business performance decreasing steadily since the first edition of the TBI.
- Cost of inputs have increased in the number of accommodation respondents citing this as a negative factor, however, the number of respondents who expect this factor to have a negative impact in Q4 have declined from the last two editions.

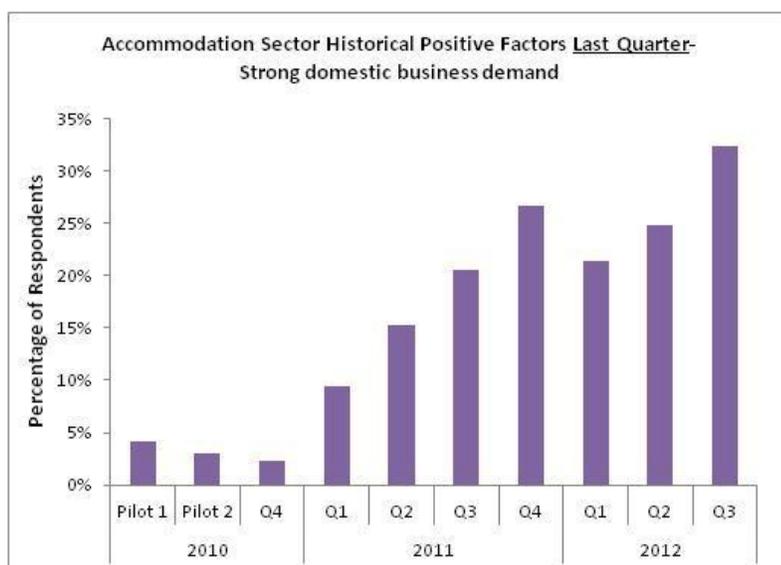




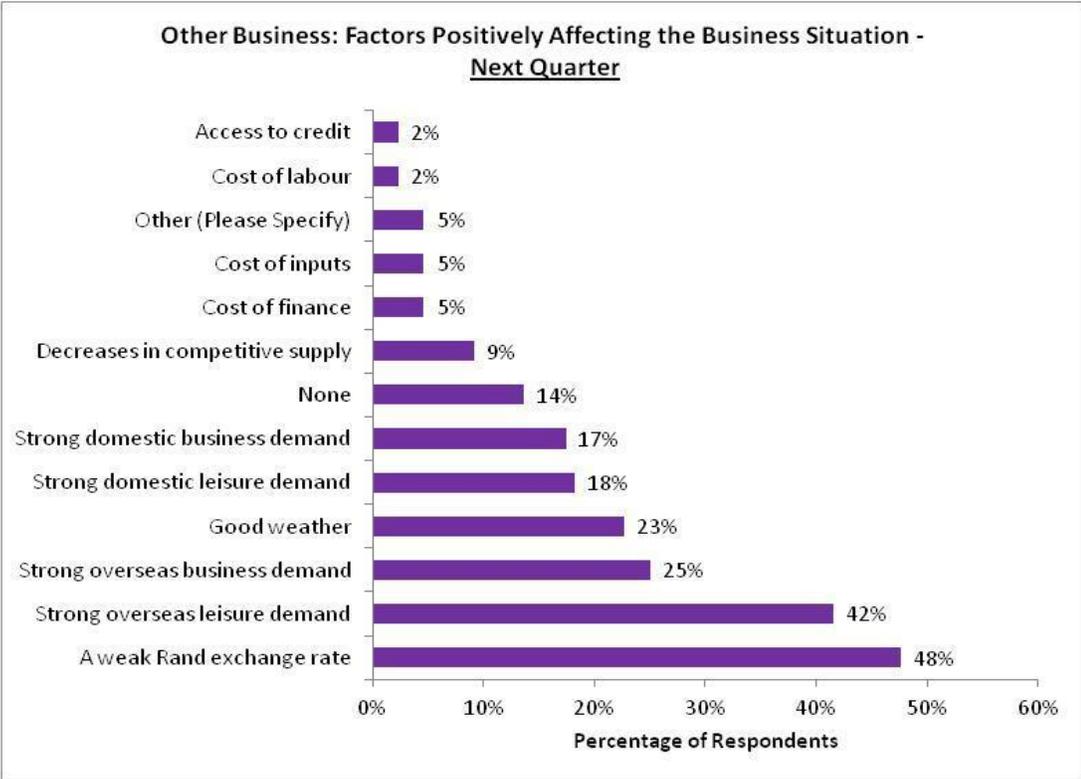
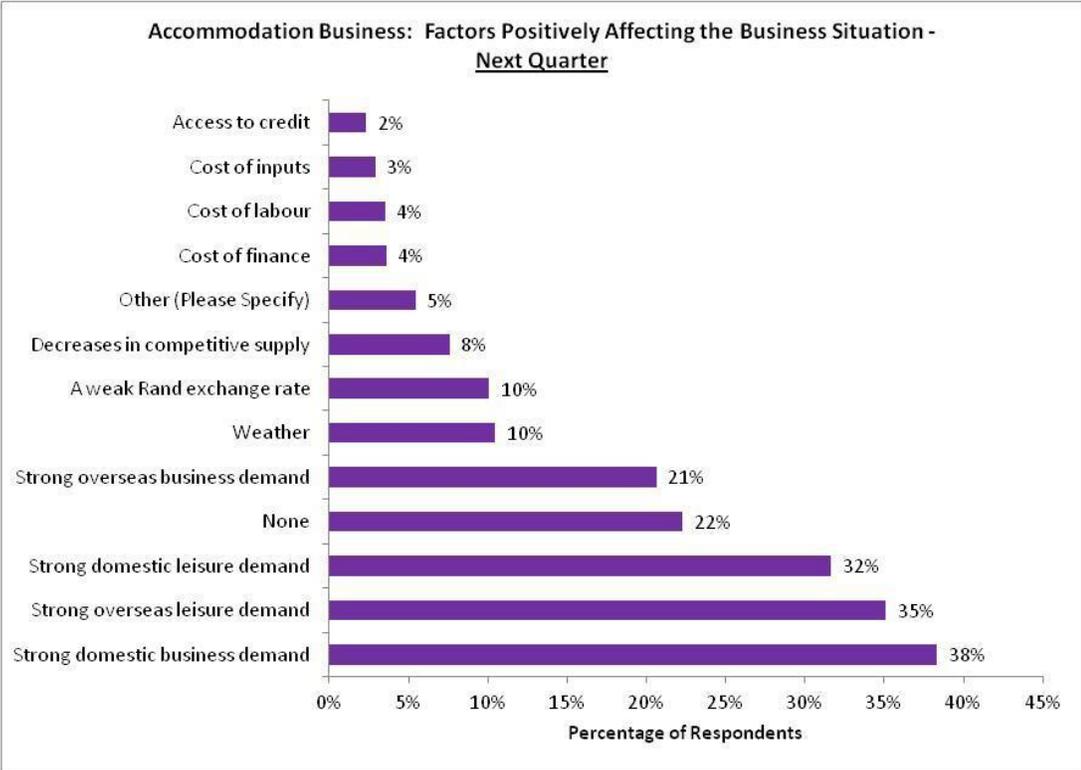
### Positive Factors - Last Quarter



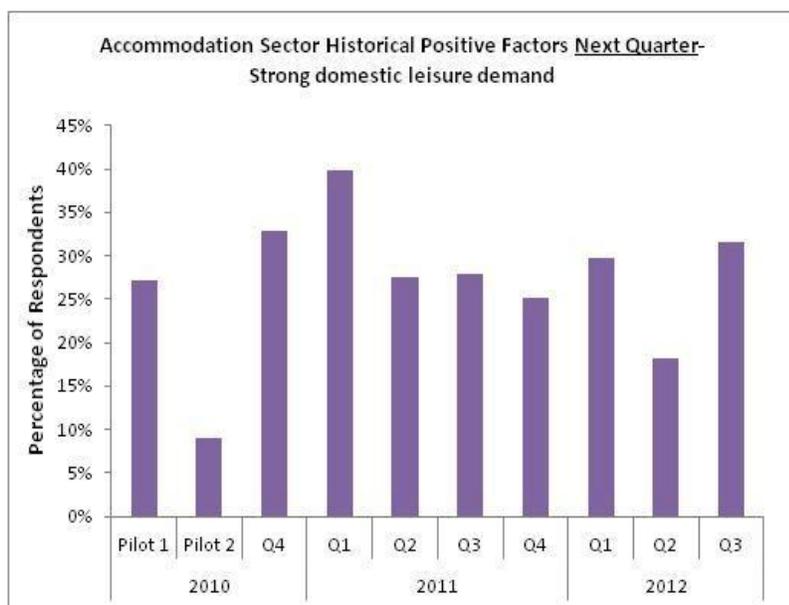
- Notable is that a large number of respondents (26% in the Accommodation Sector and 23% in the Other Sector of the Tourism Industry) feel that no specific factor had a positive impact on their business operation during Q3.
- Also strong domestic business demand was highlighted by many respondents (32% in the Accommodation Sector and 25% in the Other Tourism Sector) to have been a positive contributing factor during Q3, however 30% of the respondents in the Accommodation Sector and 21% of respondents in the Other Tourism Sector highlighted this factor as a negative contributing factor during Q3.
- Strong domestic business demand has also been increasing in the number of respondents who perceive this as a positive contributing factor to their business performance in the last quarter, since the first edition of the TBI.
- This could indicate that there is a strong growth experienced in the domestic business market, however, some respondents have not felt the benefit of the growth and have still indicated a lack of domestic business travel as a negative factor for Q3.



**Positive Factors – Next Quarter**



- Strong domestic leisure demand is highlighted by many respondents (32% in the Accommodation Sector and 18% in the Other Tourism Sector) as an expected positive contributing factor for Q4, however many of the respondents (32% in the Accommodation Sector and 16% of respondents in the Other Tourism Sector) highlighted this factor as an expected negative contributing factor for Q4.
- Likewise, many respondents are expecting overseas business and leisure demand to have a positive impact on the next quarter (Q4) when many highlighted these factors as expected negative factors for the next quarter.
- In line with the negative expectations for the next quarter, cost of labour and cost of inputs was not cited by many of the respondents as an expected positive factor for the next quarter.



## General Business Indicators

The Quarterly RMB/BER Business Confidence Index (“BCI”) from 2010 to the first three quarters of 2012 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	

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 and 2012.

The index increased by 6 index points in the third quarter to an index of 47. This only partially neutralises the big fall in the second quarter when the index dropped by 11 points from 52 in the first quarter to 41. Business confidence increased in all the sectors making up the RMB/BER BCI during the third quarter of 2012. The current level of 47 indicates that only a small majority of senior management is negative about business confidence at the moment.

The tourism business index, similarly to the RMB BER index in the first quarter of 2012, also reached positive territory, for the first time in a year for the BER. Likewise, both indices decreased in the second quarter and then increased in the third quarter, indicating a general rise in business confidence. The TBI recorded a performance index of 101 against 100, while the BCI recorded 47 against a normal of 50 in the third quarter of 2012, indicating that the TBI is largely mirroring the RMB/BER BCI this year, but that the Tourism Industry is slightly more positive.

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. It is likely that in any one month the business mood will be influenced both positively and negatively by various developments in the economy. The BCI seeks to reflect the net results of these influences. 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 index average for 2009 was 97,7. The index average rose only slightly in 2010 with 2,3 index points to 100. The average index for 2011 was 100,4 (only a marginal increase from the 2010 index average).

The SACCI BCI for 2011 and 2012 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			

Over the last four quarters, the SACCI BCI has been reducing slightly from a quarterly average of 98 for the last quarter of 2011, compared to the quarterly average of 97,4 for the first quarter of 2012 to a quarterly average of 94 for the second quarter of 2012 and 92.5 for the third quarter of 2012. This compares to a quarterly average of 98.7 for the third quarter of 2011.

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 reflected by either the TBI or the RMB/BER.

## Respondents

For this edition of the TBI we received 141 responses, which are broken up into 102 within the accommodation sector and 39 responses from the other tourism business. Listed below are the businesses who participated in this quarter's survey.

### Pledge Respondents

12 Apostles Hotel & Spa  
 3 Melrose Road - Executive Accommodation  
 A Tuscan Villa Guest House  
 AA Travel Services  
 Abangane Huest Lodge  
 Addo Elephant Back Safari's & Lodge  
 Africa 2000 Tours  
 African Sky Hotels  
 American Express Foreign exchange  
 Anchor's Rest Guest House  
 At Whale-Phin Guest House  
 ATKV Resorts  
 Avis Rent A Car  
 Baz Bus  
 Bill Harrop's "Original" Balloon Safaris  
 Blue Jay Lodge  
 Bohlale Safari & Golf Tours  
 Bosavern Guest House  
 Boundless Africa Safaris  
 Bulungula Lodge  
 Bushfellows Private Game Lodge  
 City Lodge Hotels Limited  
 Coffee Shack  
 Cornerstone B & B  
 Cornwall Hill B&B  
 Cresco Tours  
 Crooked Tree Cottage  
 De Keurboom Guesthouse  
 Eight Bells Mountain Inn  
 ERM Tours  
 Field Guides Association of Southern Africa (FGASA)  
 Forever Resorts  
 Gametrackers a division of Tourvest Holdings (Pty) Ltd  
 Grande Roche Hotel  
 Granny Dot's Country Spot  
 Graton Guest House  
 Grootbos Nature Reserve  
 Group Sports Travel  
 Gunner's Lodge  
 Hermanus Lodge on the Green  
 Hertz Car Rental  
 Hide-Away Guest House  
 Holiday Inn Express  
 Jean-Lee Guest Cottages  
 Journey Into Africa Tours & Safaris  
 Kirstenbosch National Botanical Garden  
 Legacy Hotels and Resorts  
 Lekkerbly Guest house  
 Linkside Lodge  
 Liz at Lancaster Guesthouse  
 Maropeng Visitor Centre and Sterkfontein Caves  
 Mfafa Safaris c.c.  
 Motswari Private Game Reserve  
 Ocean View Bed and Breakfast  
 Paradise Found  
 Protea Hotels  
 Queensburgh Caravan Resort  
 Rivonia Bed & Breakfast  
 SA Express  
 Sandton Convention Centre  
 Shamrock Arms Guest Lodge  
 Signature Tours  
 Siyabona Africa  
 Sizwe Car Rental  
 South African Airways  
 South African National Parks  
 Southern Sun Hotel Interests (Pty) Ltd  
 Summerstrand Hotel  
 Sun International Ltd  
 Tanda Tula Safari Camp  
 The Colonial on Arundel  
 The Inside Edge  
 The Manderson Hotel and Conference Centre  
 The Pavilion Conference Centre  
 The Red House  
 The Saffron House  
 The Space Guest House  
 Tigers Eye Group -Division of Tourvest  
 Top Notch Car Rental  
 Tourvest Accommodation and Activities  
 Tourvest Travel Services  
 Travel For Life  
 Value South Africa  
 Voortrekker Monument and Nature Reserve  
 Wailana Beach Lodge  
 Westin Cape Town  
 Winchester Mansions  
 Wow Cape Town Tours  
 Zinkwazi Lagoon Lodge  
 Zuider Zee Guest House

### Ad Hoc Respondents

African Travel Concept  
 Afrikhaya Guest House  
 Aandbloem Guest House  
 Africasky Guesthouse  
 Askari Lodge  
 Baroque B&B  
 Beetleloop Guest House  
 Benguela B&B  
 Birch Bush B&B  
 Castello Guest House  
 Chelmsford House B&B  
 Country Lane Lodge  
 De Zoete Inval Guest House  
 Dolphins View Guest House  
 Emerald Hotel  
 Glover's Bed & Breakfast  
 Green Elephant Backpackers  
 Green Pastures B&B  
 Heuglins Lodge  
 Indunduma Resort  
 Intundia Game Lodge  
 Jax Place Guest House  
 Magalies Manor  
 Mautaland Lodge  
 Mazurka Waters B&B  
 Ngwenya B&B  
 Nicorene B&B  
 Nyathi Lodge  
 Orion Safari Lodge  
 Owlhouse Backpackers  
 Pace Car Rental  
 Pezula Resort Hotel and Spa  
 Riverlodge Backpackers  
 Sandals Guest House  
 Savannah Game and River Resrot  
 Seaside Lodge  
 Selati 103 Guest Cottages  
 Selborne Bed and Breakfast  
 Senthaga Guest House  
 South of Africa  
 Susan Sleep Over Guest House  
 Thaba Tsweni Lodge & Safaris  
 The Collection by Liz McGrath  
 Toverberg Backpackers  
 Turaco Lodge  
 Umhambi Lodge  
 Villa Calla Bed & Breakfast  
 Villa Stella  
 Vineyard Hotel and Spa  
 Wilderness Lagoon B&B