



# TBCSA FNB Tourism Business Index

## 4<sup>th</sup> Quarter 2013 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 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.

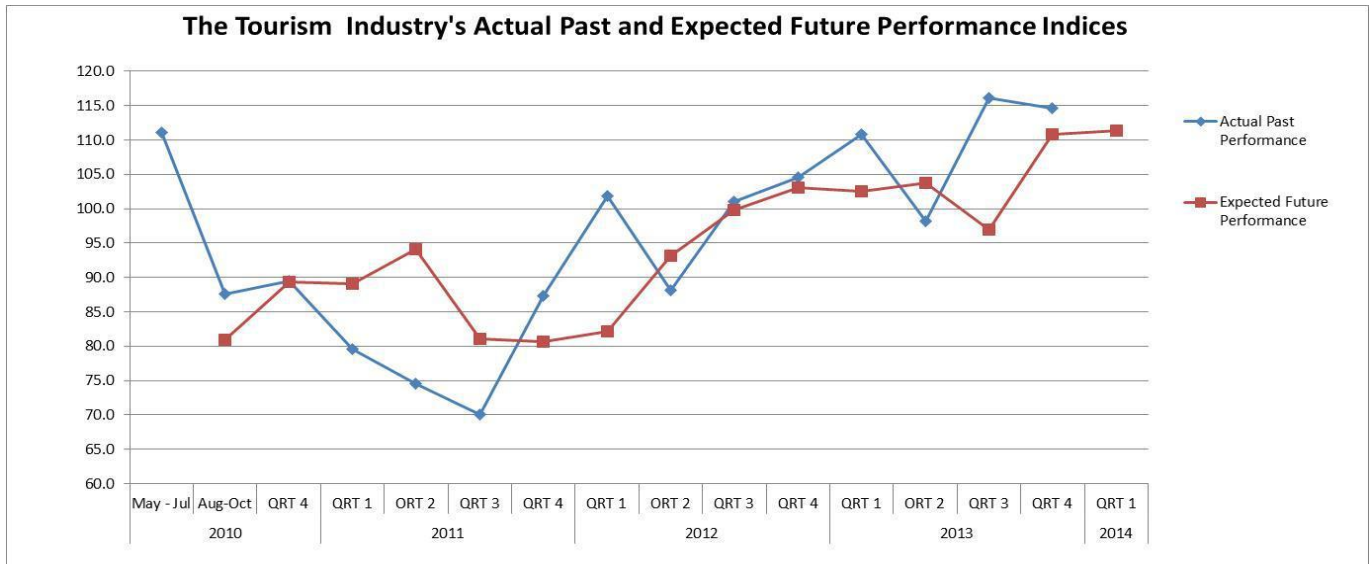
It is a business index that focuses on the performance and profitability of businesses operating in the sector, as oppose to a sector performance index. While in many instances the subtle distinction between the two approaches would not manifest in different results, in certain circumstances, they may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



- Performance achieved in Q 4 was almost on a par with performance expected for Q4 2013 recording 114,6 and 110,8 respectively. The industry therefore experienced another good quarter with above normal performance and consolidated a year in which only one quarter, Q2, experienced marginally below normal performance at 98.
- The expectation for Q1 2014 remains at better than normal levels, 111,3 confirming that the industry remains confident.
- The Accommodation Industry expects better than normal but slightly lower than Q4 performance with 107,3 for Q1 expected compared to 111,4 in Q4.
- Other Tourism Businesses showed a strong better than normal in Q4 2013 with 117,2 compared to the expected 111,4. This was influenced largely by positive performance experienced by car hire, conference centres, tour operators and retail respondents. Other Tourism Businesses remain confident that Q1 2014 performance will be better than normal at 114,4.

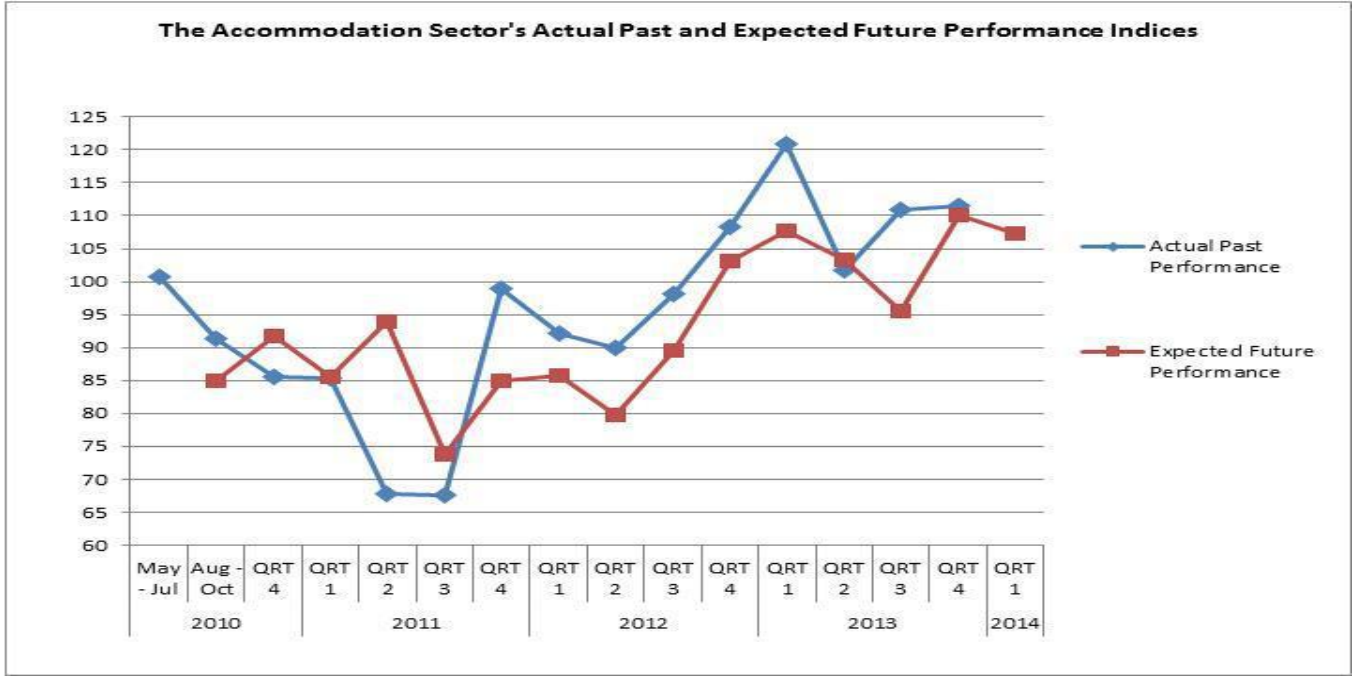
### What is Normal?

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”.

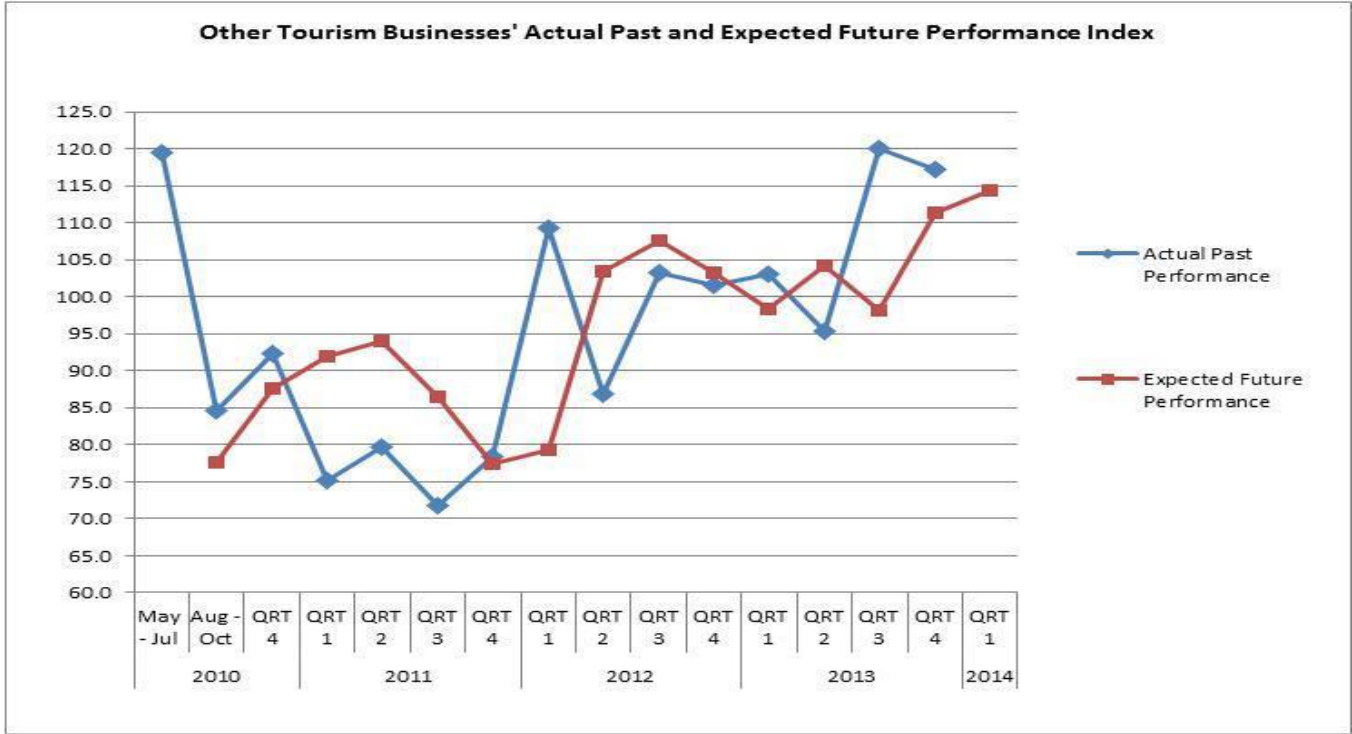
Normal is then calibrated to an index of 100. When the index shows Performance or Prospects at higher than 100, this indicates better than normal performance while, below 100 indicates worse than normal performance.

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**

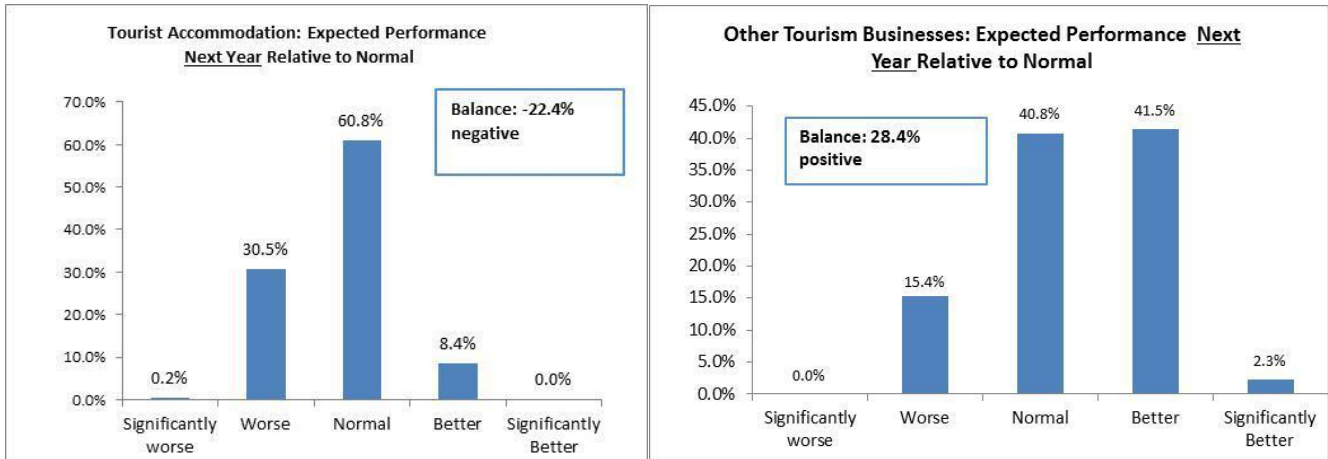
		Overall		Accommodation		Other	
		Actual	Forecast	Actual	Forecast	Actual	Forecast
<b>2011</b>	1 <sup>st</sup> Quarter	79.6	89.1	85.3	85.5	75.1	91.9
	2 <sup>nd</sup> Quarter	74.5	94.1	67.8	94.0	79.6	94.1
	3 <sup>rd</sup> Quarter	70.0	81.0	67.7	73.9	71.8	86.4
	4 <sup>th</sup> Quarter	87.3	80.7	98.9	84.9	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		111.3		107.3		114.4

**Balance Statistics****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.

When looking at next year, on balance the accommodation respondents have a negative outlook (-22,4%) which continues the pessimistic expectation shown in the prior editions. 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 more positive with +28,4% outlook for the next year.

**Next Year**

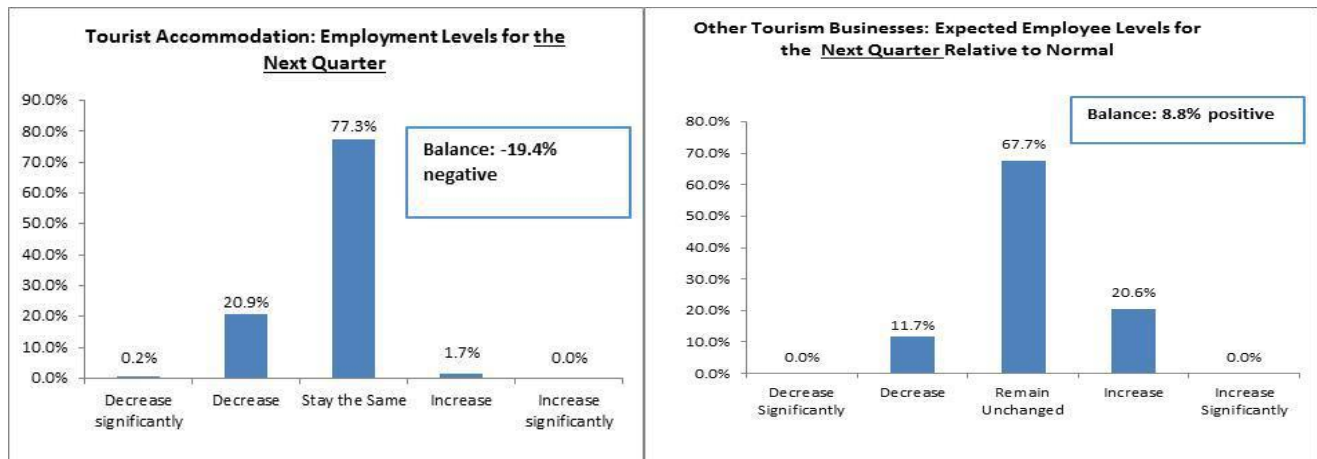


**Summary of the Next Year Balance Statistic Historical Results**

		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%
	4 <sup>th</sup> Quarter	-22.4%	+28.4%

With regard to employment, the Accommodation Sectors’ outlook drops to a negative –19,4% compared to the positive +8,7% recorded in the previous edition and the negative/neutral balance of -0,2% recorded in the edition prior to that. Conversely, Other Tourism Businesses’ outlook for employment continues on a positive note with +8,8% for the next quarter. Notably, the majority of the respondents in both the Accommodation Sector and the Other Tourism Businesses 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.

## Employment Levels

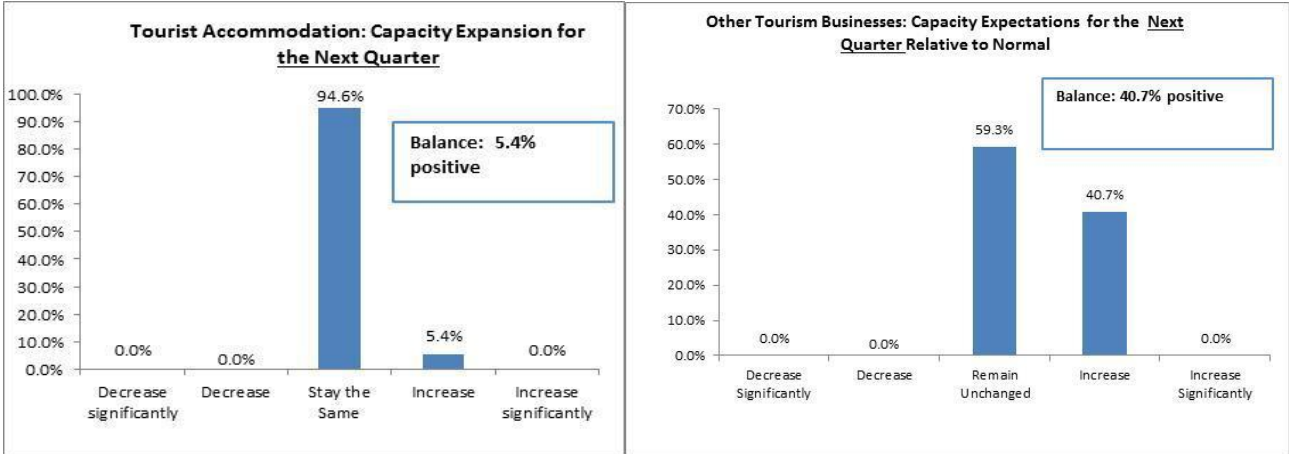


## Summary of the Employment Balance Statistic Historical Results

		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%
	4 <sup>th</sup> Quarter	-19.4%	+8.8%

Capacity expansion remains positive in terms of the Accommodation Sector and Other Tourism Businesses with both expecting a positive balance for the next quarter (Q1 2014). The Accommodation Sector anticipates a weak positive balance (+5,4%) where the majority of respondents (94,6%) expect their capacity to stay the same. An exceptionally strong positive balance features for Other Tourism Businesses anticipating a positive +40,7% which as no one reports a negative change in capacity is 40,7% of respondents indicating an increase in capacity for the next quarter.

**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%
	4 <sup>th</sup> Quarter	+5.4%	+40.7%

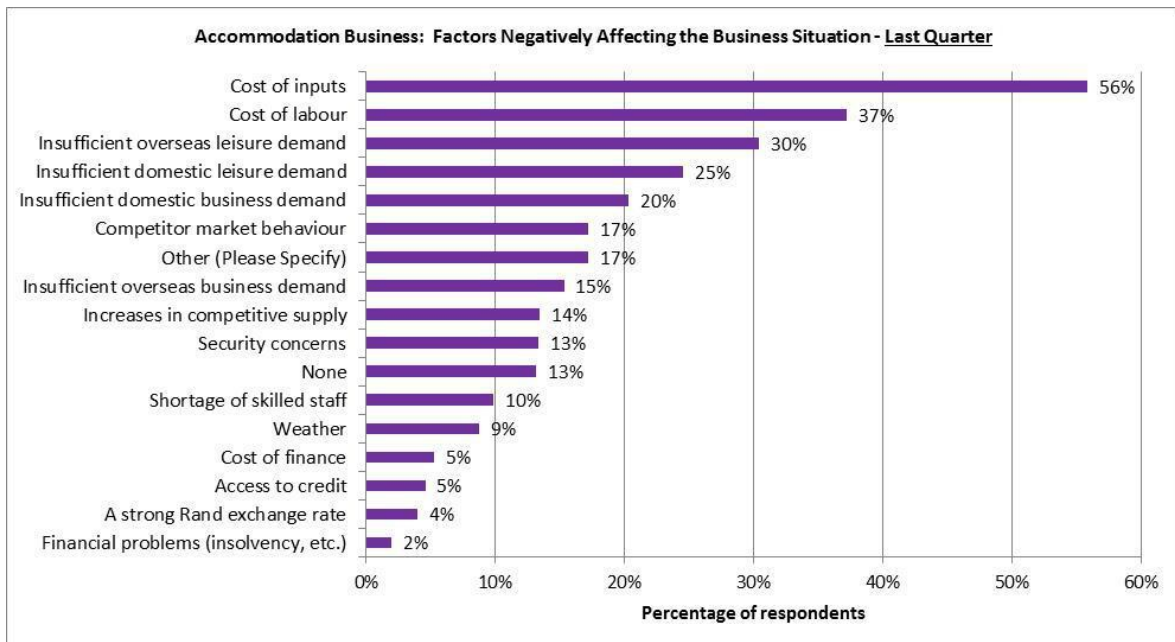


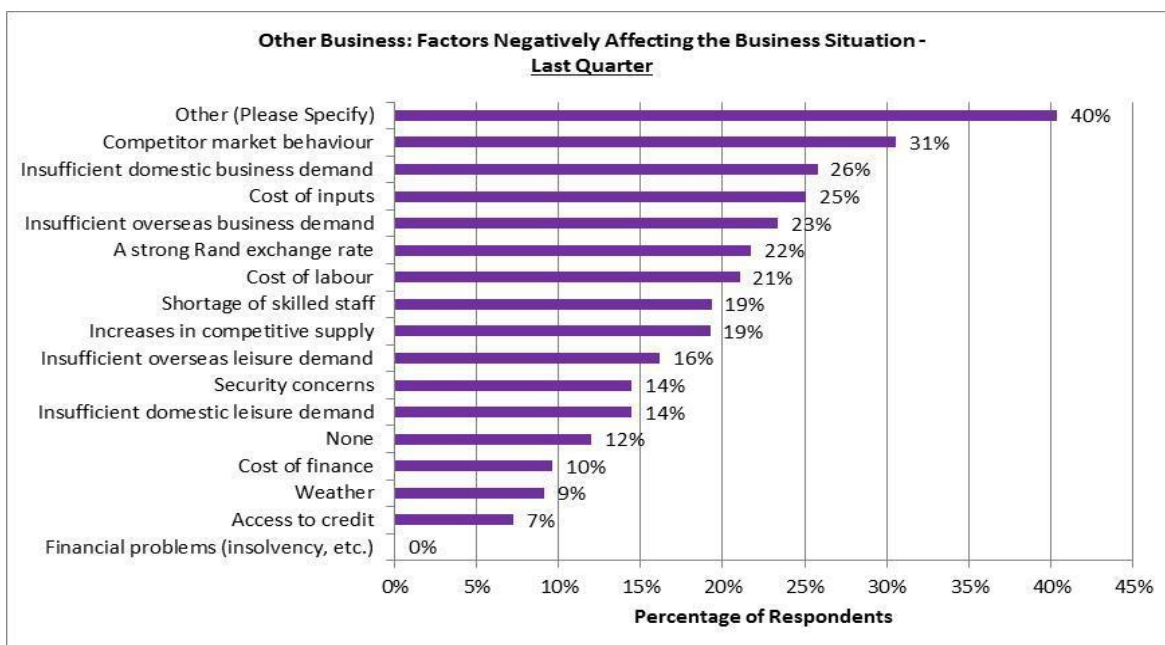
## Factors Affecting Business Conditions

With regard to the performance of the Tourism Industry, this report considers both positive and negative factors which possibly have an impact on the performance of the industry.

### Negative Factors - Last Quarter

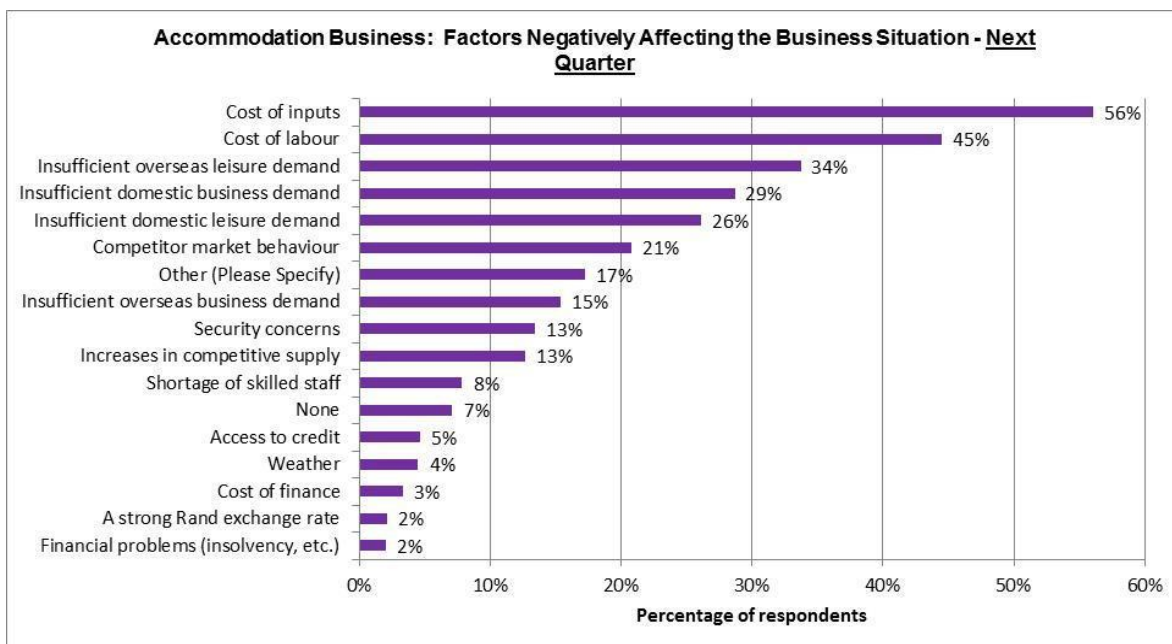
- For the 6<sup>th</sup> consecutive quarter, cost of inputs remains the most cited negative contributing factor for business performance for Accommodation Businesses (56%).
- The cost of labour continues to feature as a growing concern with an average of 24% of all Accommodation Business respondents (from inception of the index to date) indicating it as an impediment to business performance. In addition to this, a fair amount of respondents cite insufficient overseas leisure demand (30%) as negatively impacting business performance.
- Once again, competitor market behaviour continues to be cited quite frequently as one of the major negative factors affecting business performance for the Other Tourism Businesses (31%).
- Noted contributing influences mentioned in relation to Other Tourism Businesses (40%) include the impact of the increase in the price of fuel, motor industry strikes affecting delivery time, supplier incompetence, lack of marketing, poor road infrastructure, political influences as well as the impact of Nelson Mandela’s death.
- Overall, both Accommodation Businesses (20%) and Other Tourism Businesses (26%) experienced insufficient domestic business demand during the last quarter (Q4 of 2013).



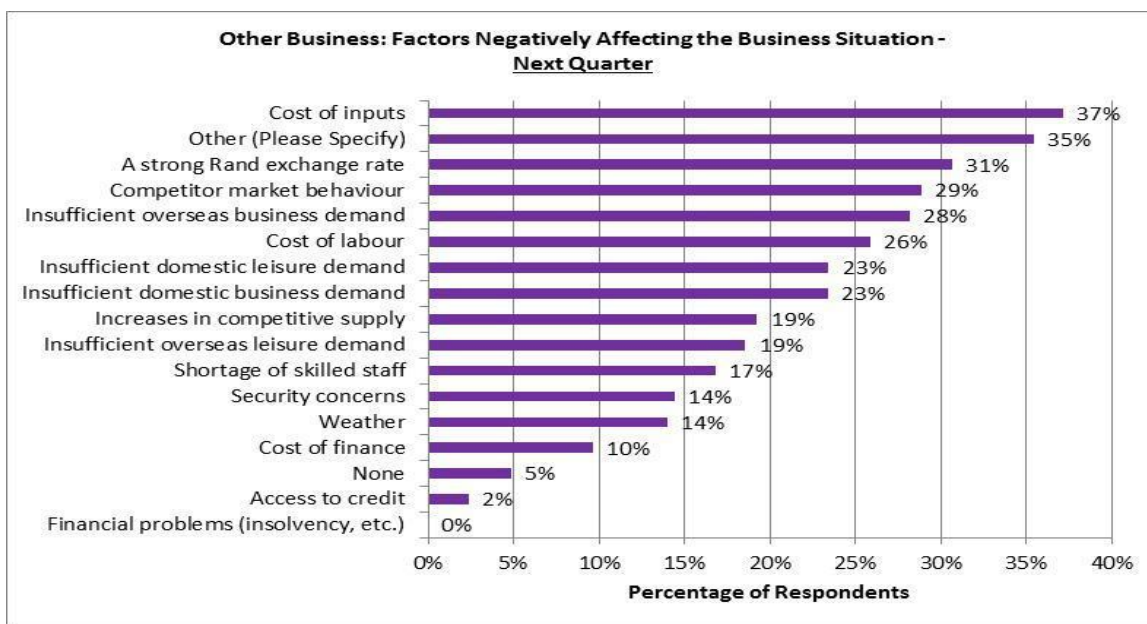


### Negative Factors - Next Quarter

- In line with last quarter, cost of inputs (56%), cost of labour (45%) and insufficient overseas leisure demand (34%) are once again cited by the Accommodation Sector as the expected negative impacting factors for the next quarter (Q1 of 2014).

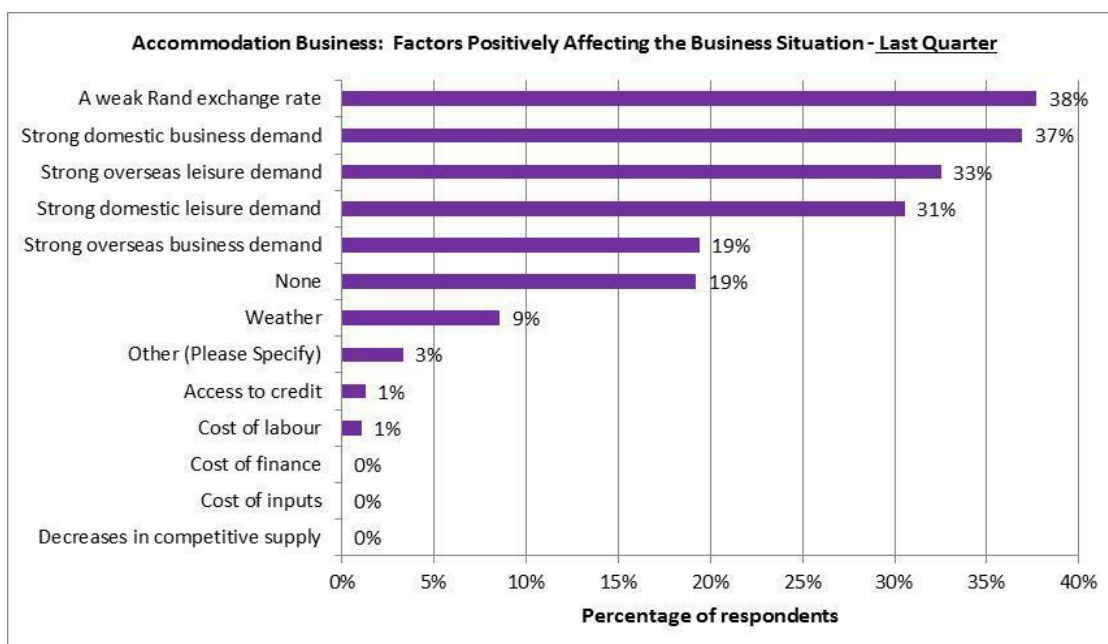


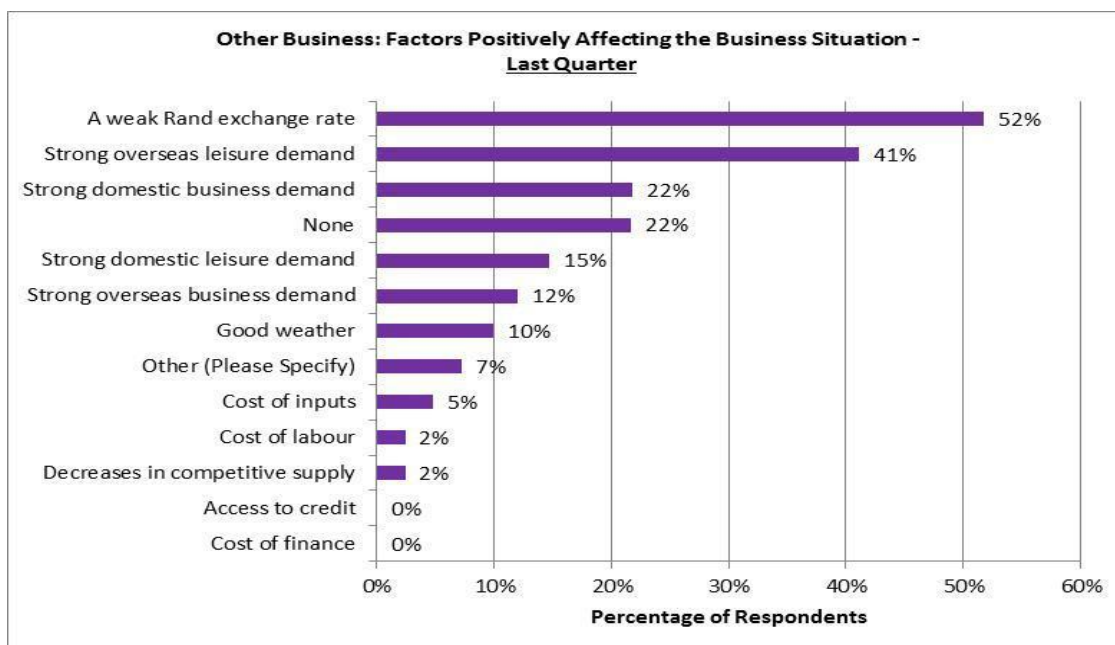
- Other Tourism Businesses expect cost of inputs (37%) to be one of the negative contributing factors for the next quarter. Followed by, a strong rand exchange rate (31%), competitor market behaviour (29%) as well as insufficient overseas business demand (28%). Other negative factors highlighted relate directly to experience of the last quarter.



#### **Positive Factors - Last Quarter**

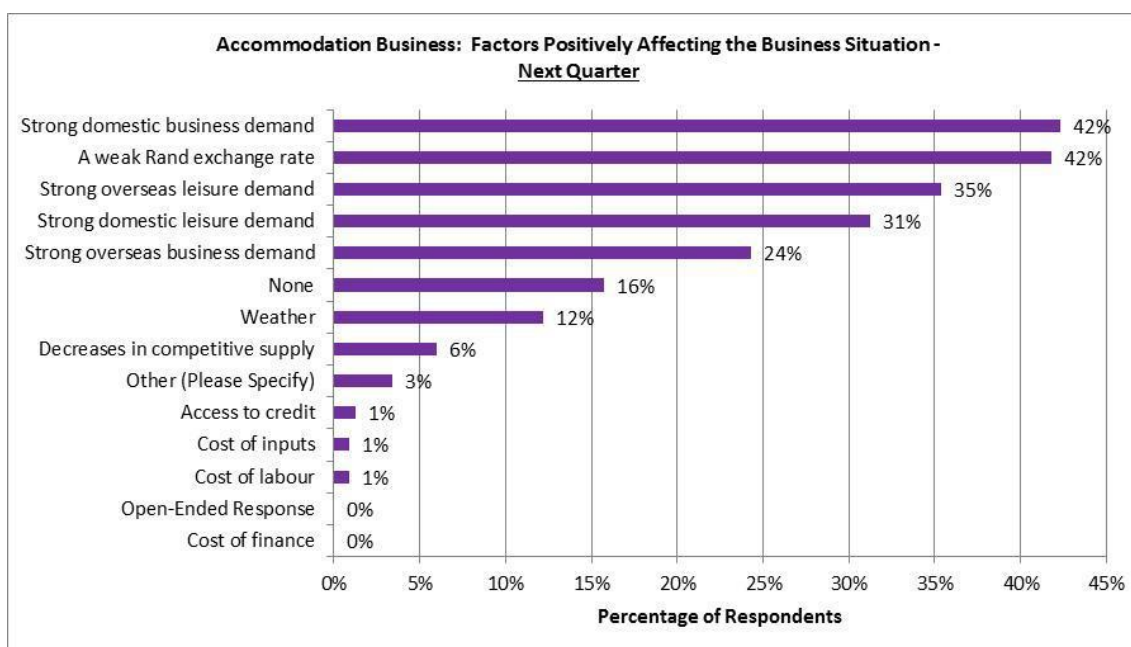
- A weak exchange rate was cited as a significant positive contributing factor for both the Accommodation Sector and Other Tourism Businesses.
- Positive influences during Q4 include business development/improvement, increased marketing efforts and December holidays.

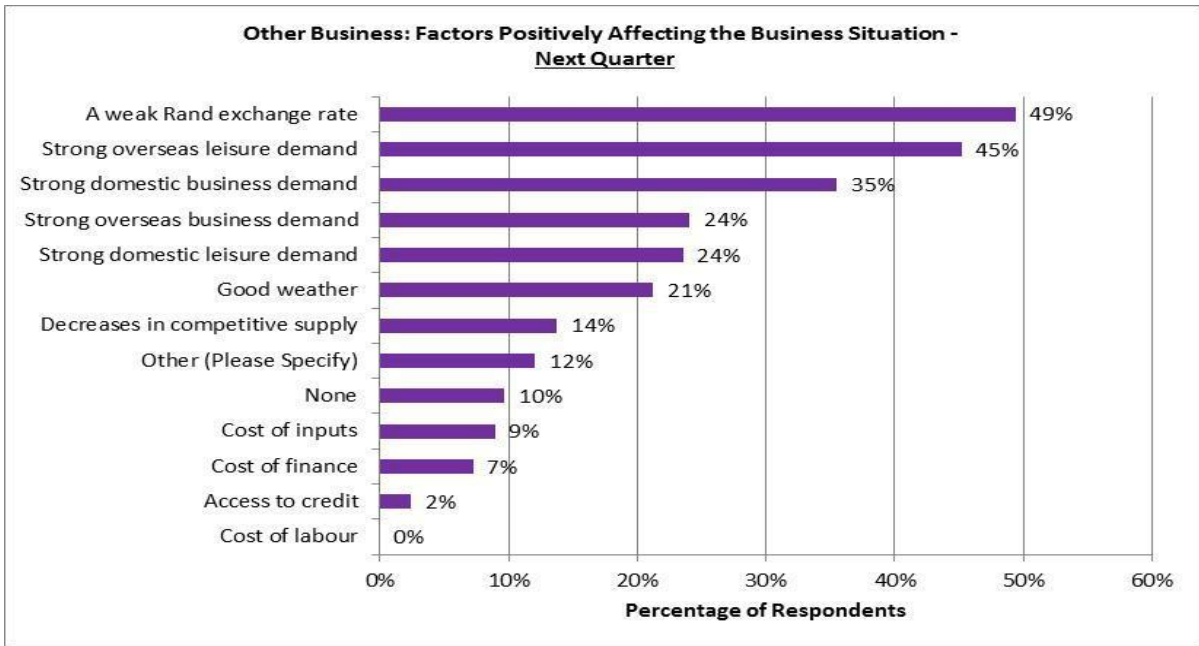




#### **Positive Factors – Next Quarter**

- A weak rand exchange rate is forecasted by the majority of businesses in the Accommodation Sector with 42% expecting this to have a positive impact on business performance in the next quarter (Q1 2014). Similarly, 49% of the businesses in the Other Tourism Sector cited this as a positive factor for the upcoming quarter.
- Accommodation Businesses and Other Tourism Businesses reiterate their optimism towards the Tourism Industry in the expected strength in domestic/overseas business/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

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 43 index points for Q4 2013 (only one index point above the previous quarter).

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. However since then, the TBI has recorded a performance index of better than normal for 2 quarters while the BER has remained below normal. This indicates that for the past 2 consecutive quarters, the Tourism Industry has experienced 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.

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		

Even though the methodologies are not the same and therefore different results could be expected, it would appear that there was a general downward tendency in business performance according to the SACCI BCI since early 2012, with only the slightest of upticks in the last quarter of 2013. 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 also showed stronger performance in Q3 2013 compared to Q2, and firm growth coming through in October and November statistics so far, as shown in the table below.

	2013 Quarterly Average Growth			
	Q1	Q2	Q3	Q4 (October and November Data)
Occupancy Rates	7.6%	1.6%	2.0%	3.0%
RevPAR	17.1%	8.8%	11.8%	12.8%