



TBCSA FNB Tourism Business Index

4th Quarter 2012 Results and Outlook for the year 2013

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. 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.

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 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.

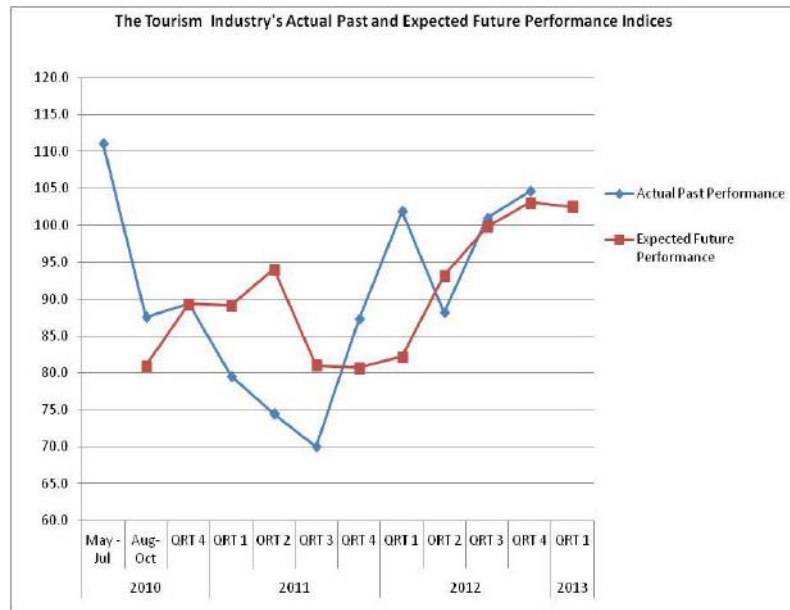
It is a business index that focuses on the performance and profitability of businesses operating in the sector, as oppose to a sector performance index. While in many instances the subtle distinction between the two approaches would not manifest in different indices, in certain circumstances, they may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

TBCSA FNB Tourism Business Index

The Tourism Business Index



- In Q4, the TBI slightly exceeded expected performance for the quarter and reached 104,6 (compared to an expected index of 103,1). Q4 is ahead of Q3 at 104,6 compared to 101,0.
- This is the second consecutive quarter that the TBI has recorded performance levels above the normal level of 100 and is the highest recorded performance index since the first pilot phase in 2010 (111,1).
- 2013 Q1 expectations are roughly in-line with last quarter 2012 performance at 102,5. This continued positive outlook 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 Q4 2012 was higher than normal at 108,4 and much better than Q3 (98,1), while the Other Tourism Businesses recorded a Q4 index (101,6) slightly below the Q3 performance of 103,3.
- The Accommodation Sector performed better than expected in Q4 (108,4 compared to 103,1), while Other Tourism Businesses forecast performance of 101,6 was a little lower than the 103,2 forecasted.

What is Normal?

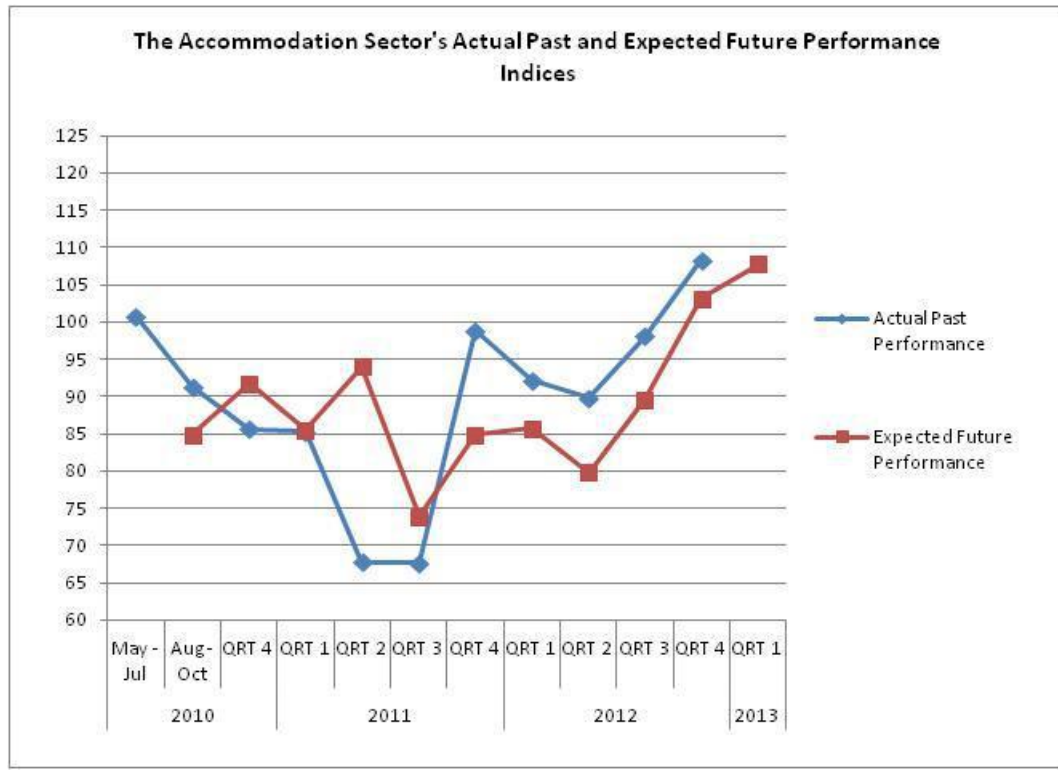
The reported changes or expected changes in demand and profitability are expressed relative to the expected normal levels of business for the relevant period. Normal is defined as “the level of acceptable business performance in line with the realistic long term average performance you would hope to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

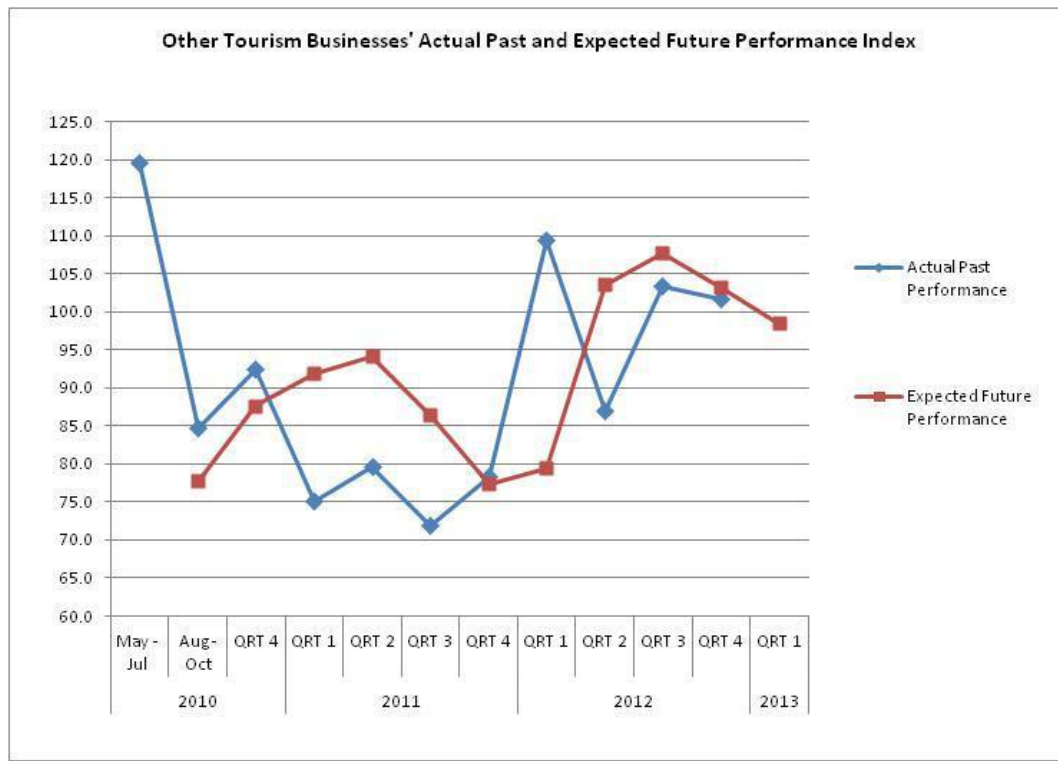
If all business surveyed indicate a significantly better than normal performance across all dimensions covered, the index could register a maximum high of 200, while significantly poor performance for all businesses would result in an index of 0.

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 Q4, with expectations for Q1 2013 good and staying close to normal levels.

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		102.5		107.8		98.4

Balance Statistics

Employment

The Accommodation Sector is slightly positive on balance regarding expected employment levels for Q1 2013 (+5,3%), while the Other Accommodation Businesses are negative on balance (-8,3%). The accommodation Sector is showing a similar balance level as for Q4 2012, when 6,4% was recorded in the previous edition. The majority of the operators (91,9%) indicating that their employment levels will remain unchanged.

The Other Tourism Businesses on the other hand are somewhat more negative than last quarter, with only 9,6% of the respondents indicating that their employment levels will increase in Q1 2013 compared to 16,09% in the previous edition.

Capacity

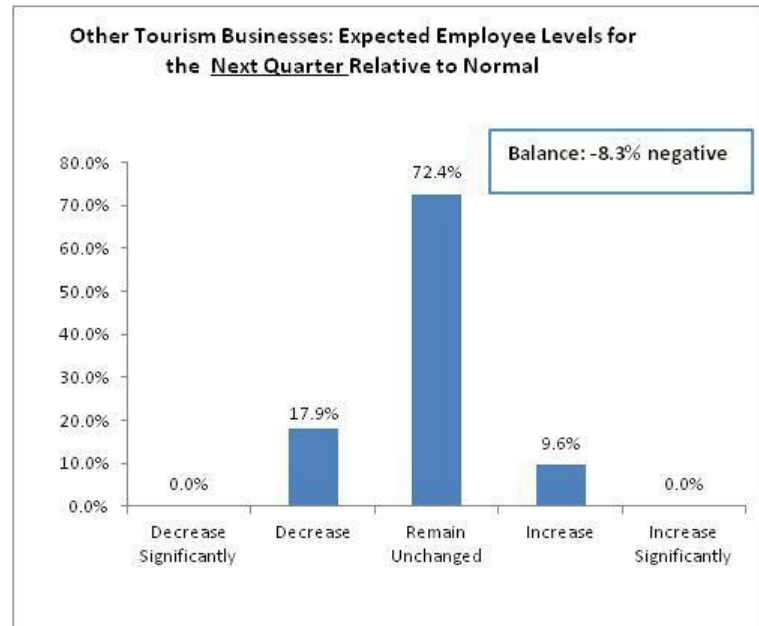
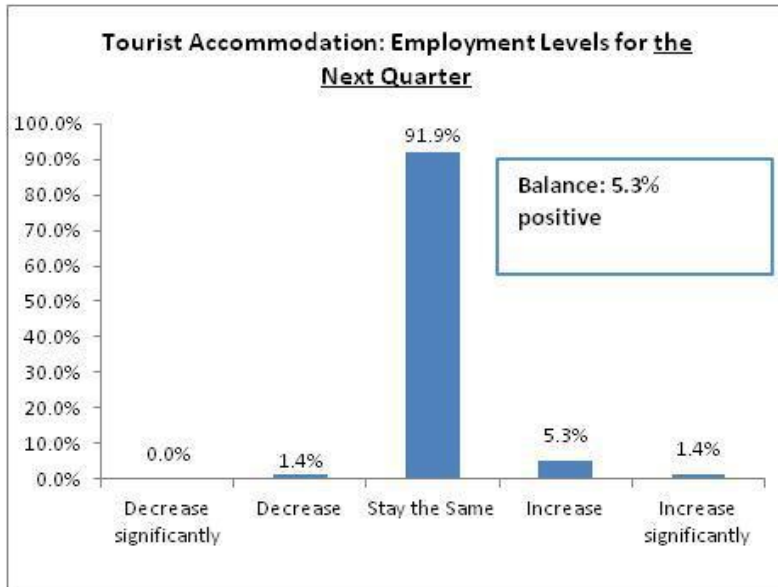
In both Accommodation and Other Tourism Businesses, there is a positive balance (+11,1% and +26,1% respectively) regarding capacity expansion for Q1 2013, however, this is lower than the positive balance statistics recorded by both groups in the previous edition (+22,5% and 30,3% respectively). The majority of respondents expect their capacity to remain unchanged, with this number increasing from the previous edition where more of the respondents thought their capacity would increase.

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 Quarter

Employment Levels

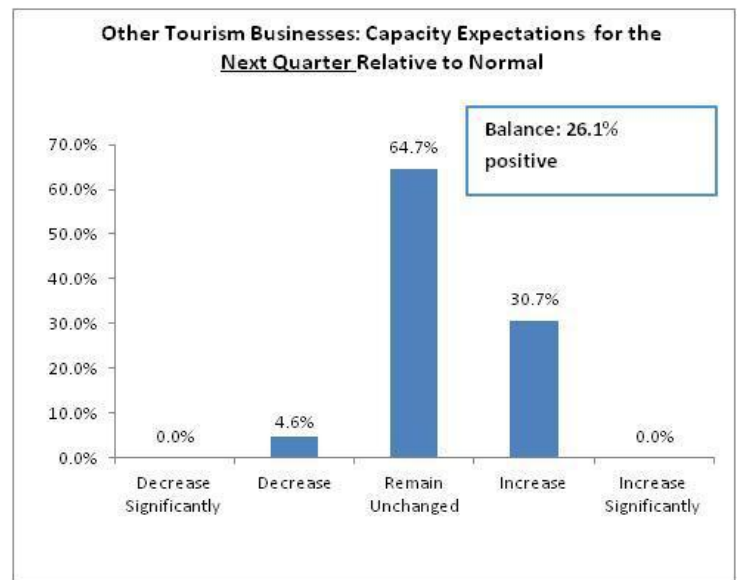
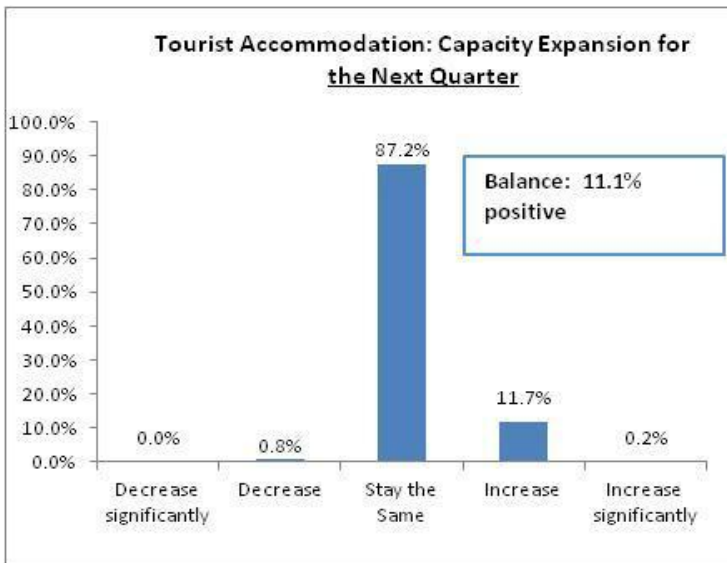


Summary of the Employment Balance Statistic Historical Results

		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%

Next Quarter

Capacity Growth Expectations

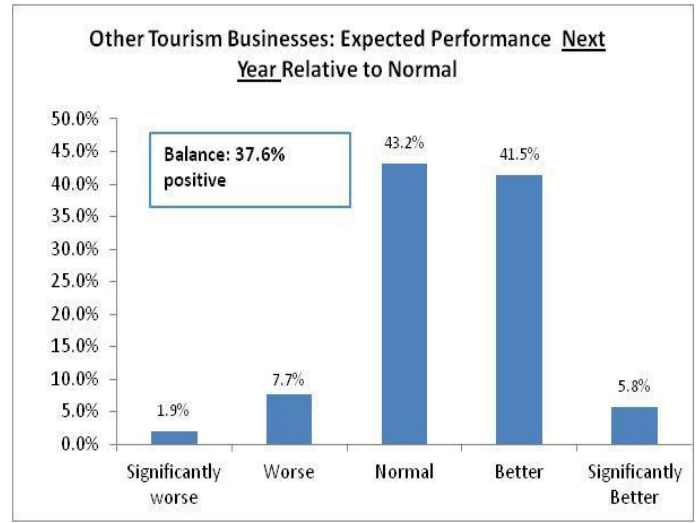
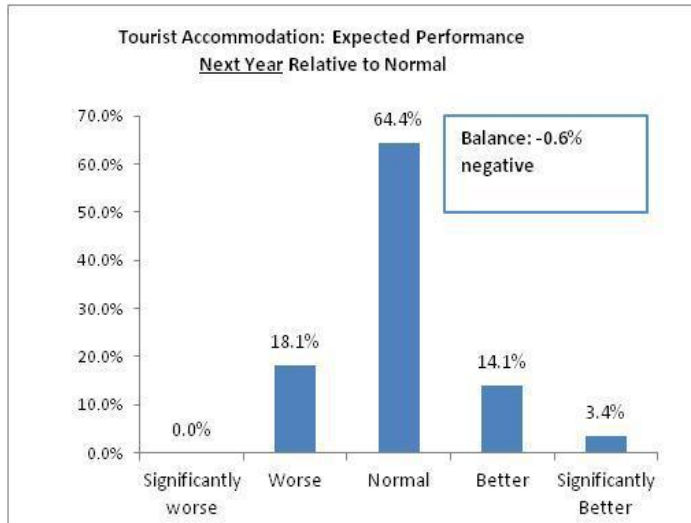


Summary of the Capacity Growth Balance Statistic Historical Results

		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%

The Outlook for the Next Year (2013)

Expected Performance

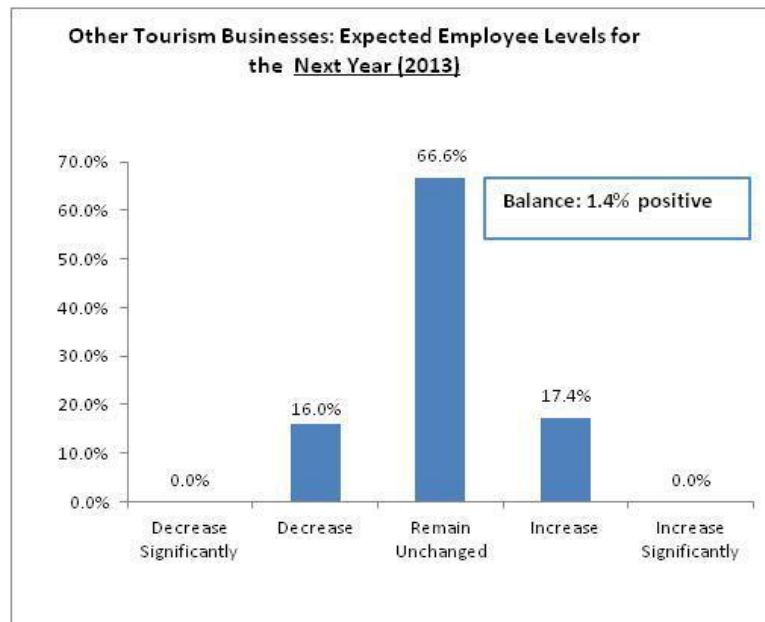
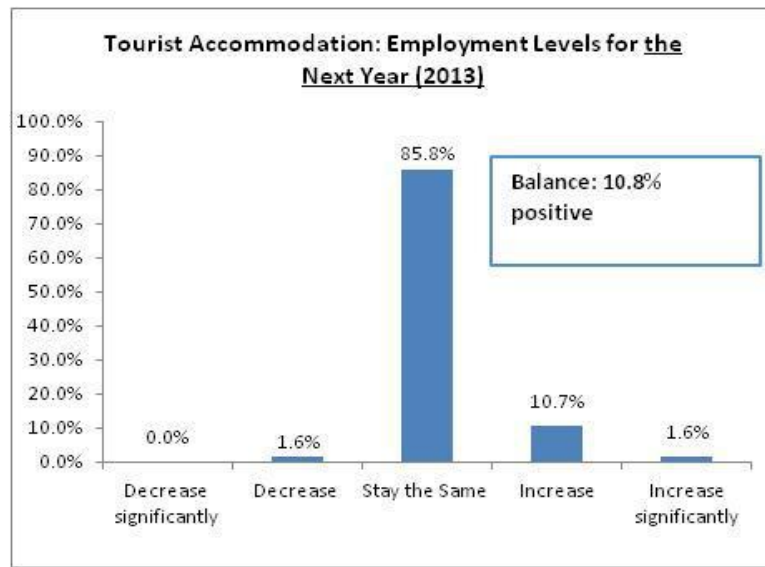


- When looking at next year, on balance the accommodation respondents expect a fairly similar overall annual performance at a -0,6%, but this balance statistic has been improving steadily every quarter from a low of -70,3 in Q3 2011.
- Other Tourism Businesses are on balance +37,6% positive about the outlook for the next year, which is significantly higher than in Q4 2012 and the highest ever positive outlook recorded. A large number (41,5%) of the respondents believe that their businesses will perform better than normal in the 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%

Employment Levels



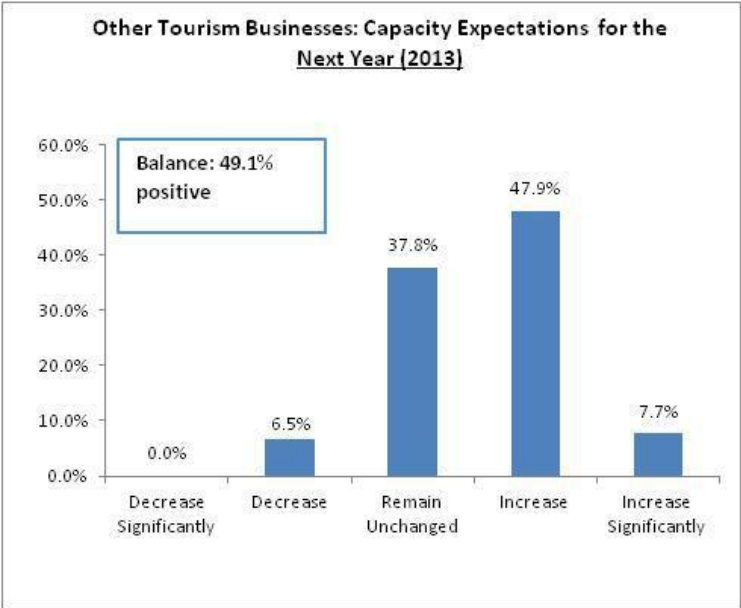
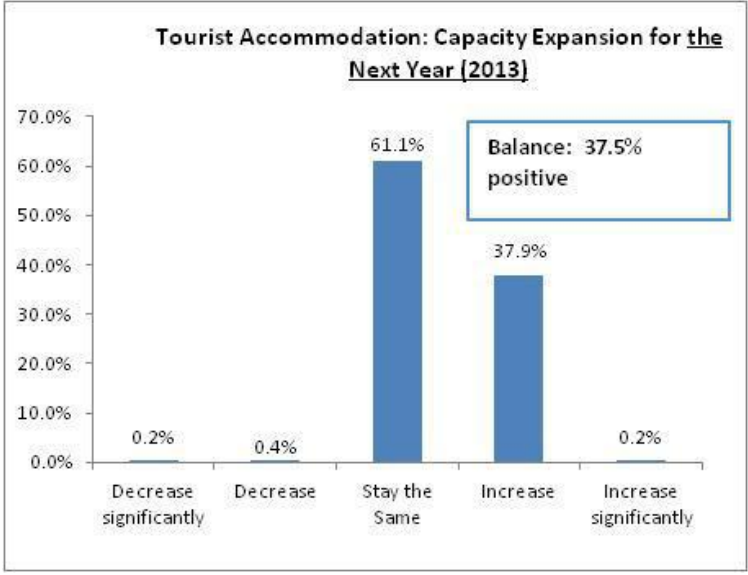
Additional Questions for the 2013 Outlook

In this edition of the TBI, respondents were asked 4 additional questions to assist us in establishing the industry's outlook for 2013.

Respondents were asked to indicate their expected employment levels, capacity growth, which markets they believe have the most potential for growth in 2013 and the biggest constraints or threats they have identified to doing business in 2013.

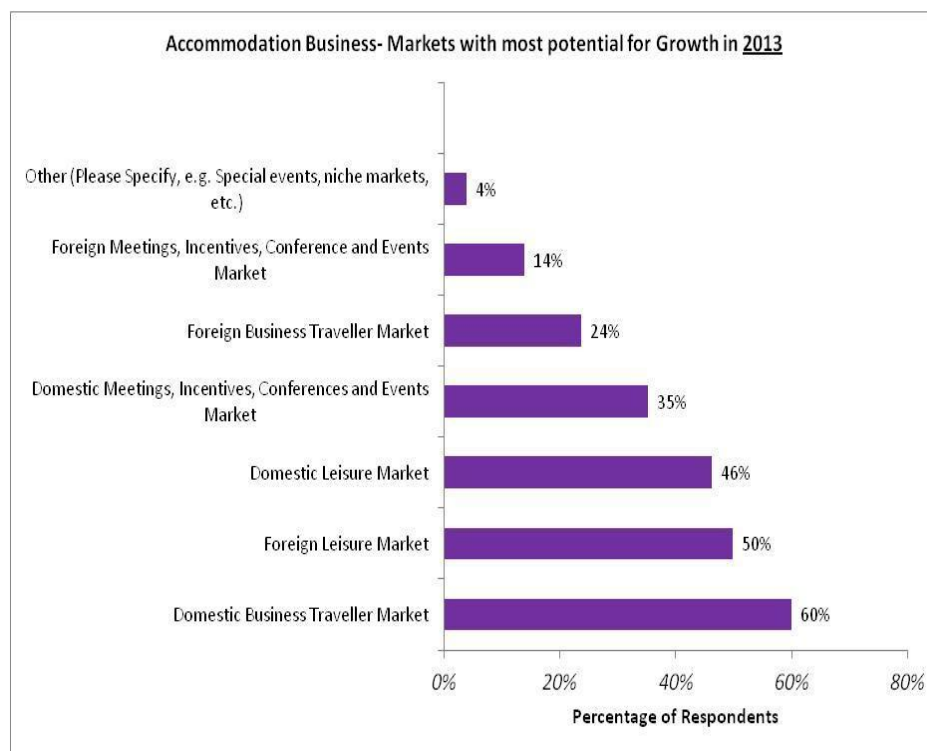
- When looking towards the next year rather than the next quarter, the Accommodation Sector is more positive about the employment levels, with a balance statistic of 10,8% compared to a balance statistic of 5,3% for Q1 2013.
- The Other Tourism Businesses are also more optimistic about the year ahead than compared with the next quarter, with a positive balance statistic of +1,4%.

Capacity Growth Expectations



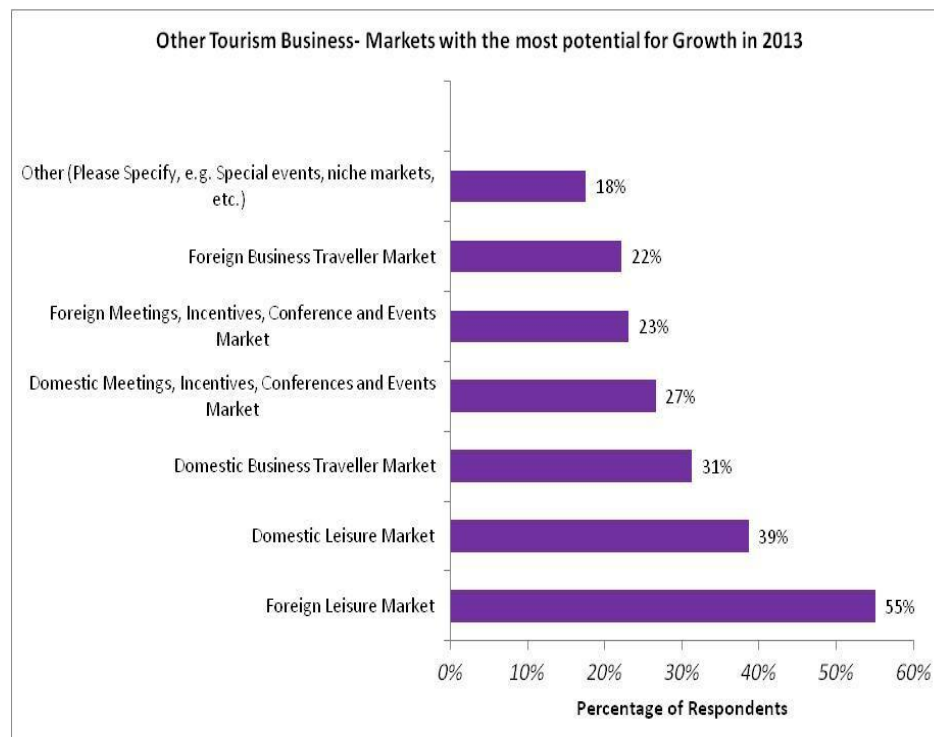
- As was the case with employee levels, Accommodation and Other Tourism Businesses are a lot more positive about their capacity growth in 2013, than the next quarter, with positive balance statistics of 37,5% and 49,% respectively.
- The 2013 outlook indicates good expected growth in 2013 across the entire industry, in spite of the accommodation sector seeing overall performance in 2013 at similar levels to 2012.

Markets with Potential for Growth in 2013



- For the Accommodation Sector, the domestic markets and the foreign leisure markets are expected to be the markets with the most growth in 2013.
- Other specific markets identified by the Accommodation Sector include: medical, special events, actors and comedians visiting South Africa and niche markets such as birding and mountain biking as well as the youth market.
- While domestic business tourism (meetings, conferences & events) is strong for the accommodation sector, both the domestic and foreign business tourism markets are expected to be strong for other tourism businesses

- For the Other Tourism Businesses, the leisure market - Foreign (55%) and Domestic (39%), are the markets that most of the respondents believe have the best potential for growth in 2013.
- 18% of the Other Tourism Business respondents identified other special markets as their potential growth markets for 2013.
- These other special markets include: Sport tours, especially school sport groups, people requiring car rental because of insurance claims, educational markets and retail opportunities outside of Africa.



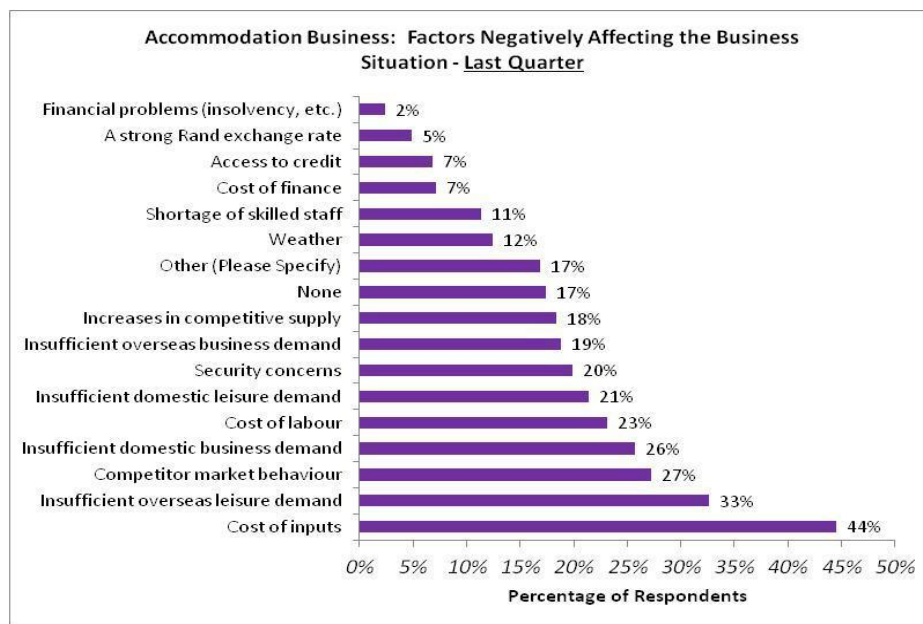
Constraints, Threats and Challenges to doing Business in 2013

- The global economic recession, the political uncertainty and labour/community unrest in South Africa and the negative perceptions this has created, profiling South Africa as an unsafe destination to foreign visitors were cited by the majority of the Accommodation and Other Tourism Business respondents as major threats to business in 2013.
- Rising operational costs, especially municipal rates, fuel and electricity prices, were also cited by many respondents as major constraints to doing business in 2013.
- The Accommodation Sector identified price wars within the sector as a major threat to the industry, with many operators undercutting rates. Competition from European destinations with accommodation operators offering top standard accommodation at very low rates was mentioned by some of the respondents.
- Lack of direct air access to Cape Town was highlighted by many respondents as a challenge for 2013.
- The Other Tourism Businesses, especially the operators in the transport industry, believe e-tolls to be a major constraint to business in 2013, increasing operational costs and decreasing the disposable income of their customers.
- Other constraints and threats mentioned by more than one respondent include: a lack of destination marketing by South African Tourism and other DMOs, a lack of municipal service delivery, labour strikes, increase in competitive establishments and businesses, the corporate and business travel market reducing their spend on travel, reduced disposable income for the domestic market, exchange rates, slow debt repayment by customers and bad weather conditions.
- Other factors mentioned are:
 - Exposure to the growing Asian and African markets and lack of DMO.
 - Maintaining market share as online travel portals make it easy for tourists to book direct, thus cutting out the need for a tour operator or travel agent.
 - Long haul destination making access to South Africa, expensive and difficult

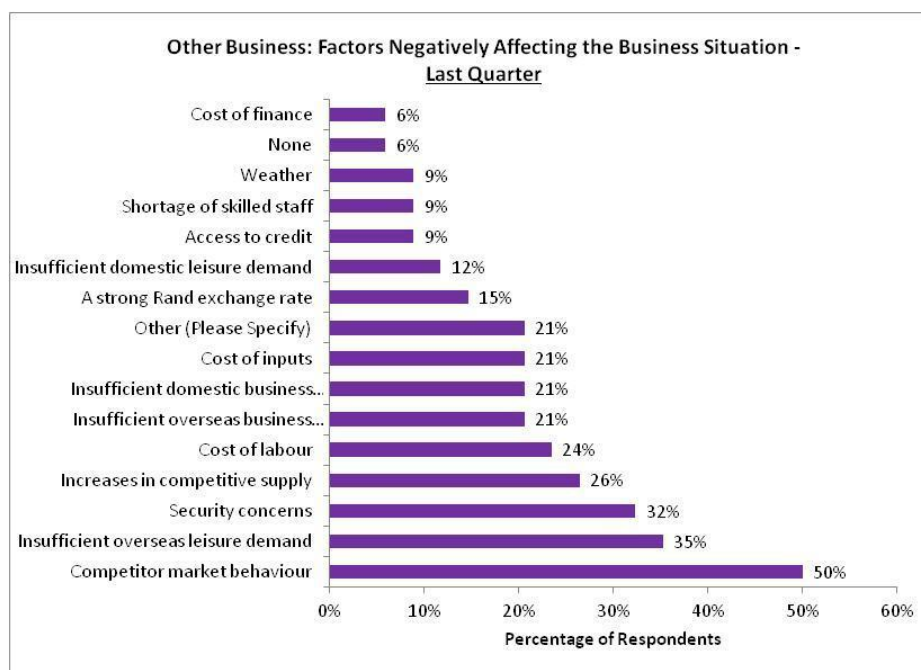
Factors Affecting Business Conditions

Negative Factors - Last Quarter

- For the third consecutive QUARTER, cost of inputs was cited by the largest proportion of Accommodation Businesses (44%) as a negative contributing factor during the last quarter (Q3).
- Insufficient overseas leisure demand and competitive market behaviour were cited by a significant number of both Accommodation Business and Other Tourism Business as impediments to business performance for the quarter.

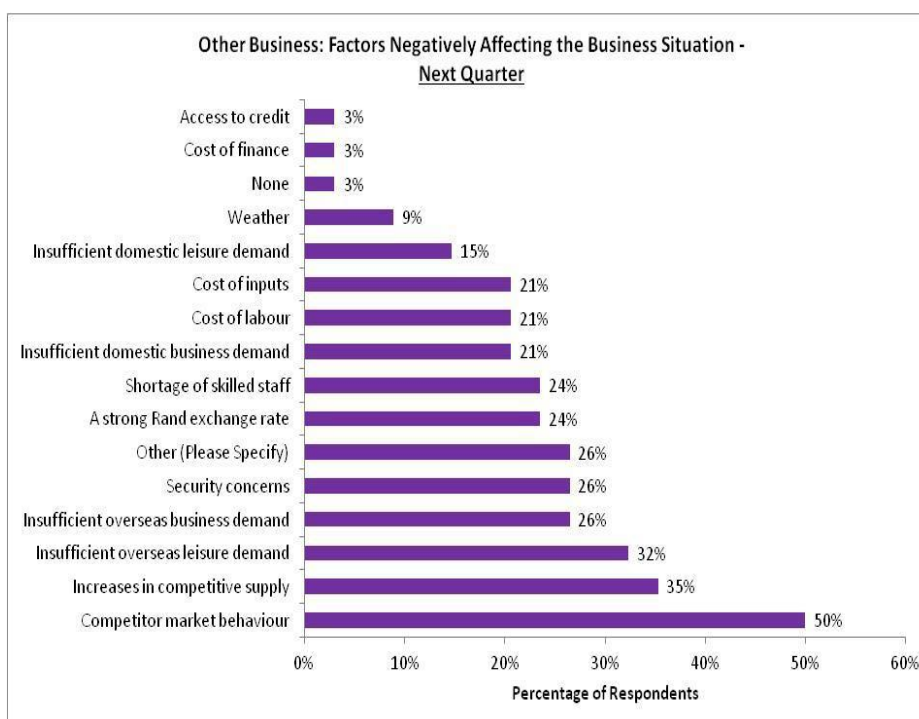
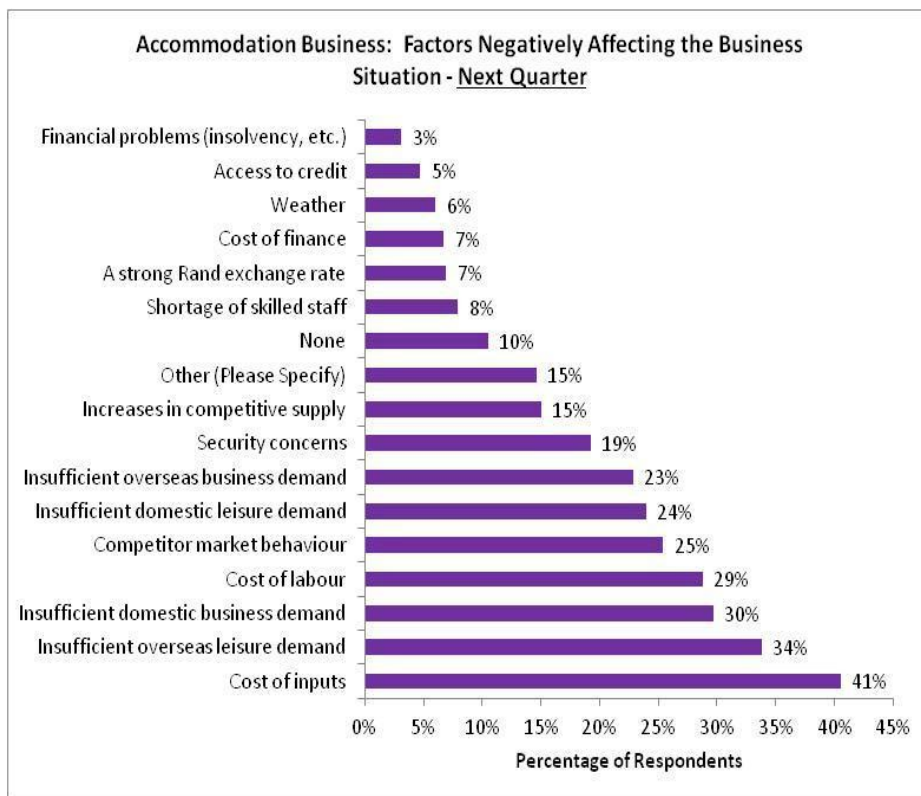


- Cost of labour cited by 23% and 24% of accommodation and other respondents respectively remains a fairly widely felt negative factor
- Increasing fuel and municipal costs were specifically mentioned as negative factors affecting business performance by many respondents.



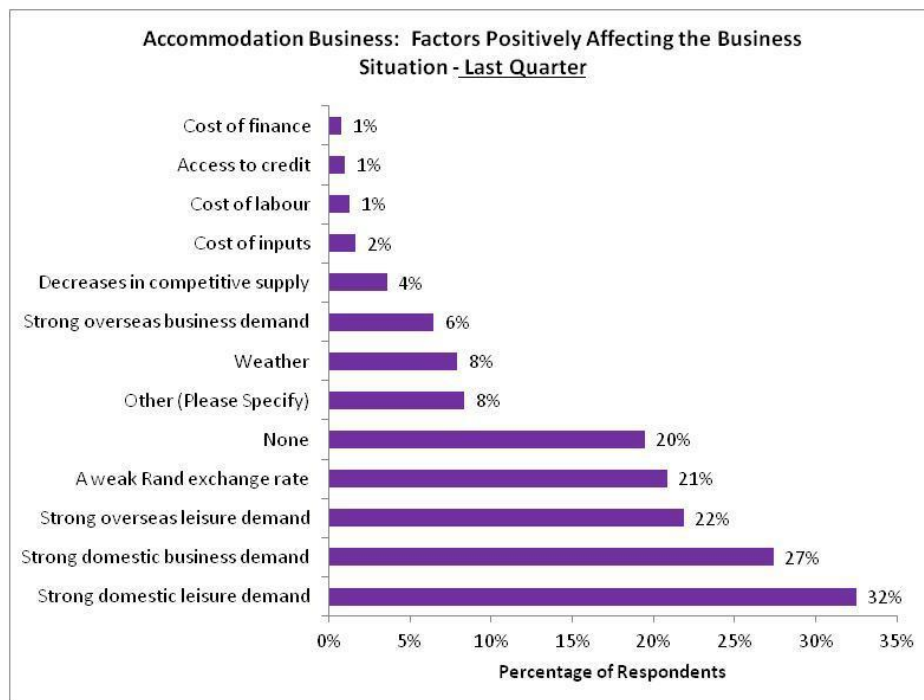
Negative Factors - Next Quarter

- Similar to last quarter, cost of inputs (41%) and insufficient overseas leisure demand (34%) are predicted by the Accommodation Sector as negative impacting factors for the next quarter (Q1) for 2013.
- Once again, for Other Tourism Businesses, competitor market behaviour is highlighted by a significant number of respondents (50%) as an expected negative factor for business performance in the next quarter.
- Also cited by a number of respondents, 25% and 35% respectively for accommodation and other, is expected increases in competitive supply as a negative factor.

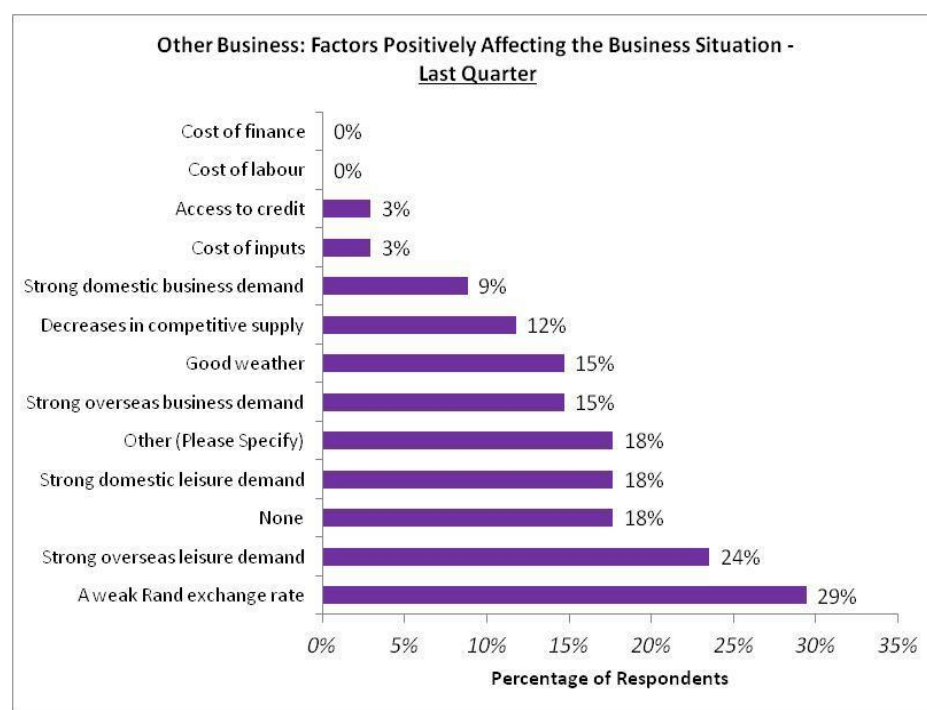


Positive Factors - Last Quarter

- Strong domestic leisure demand was cited by a number of respondents (32%) as a positive contributing factor of business performance for the Accommodation sector last quarter.
- A large proportion of both the Accommodation Sector and the Other Tourism Sector, 20% and 18% respectively, felt that no specific factors positively impacted their business performance in Q3 with a notable.

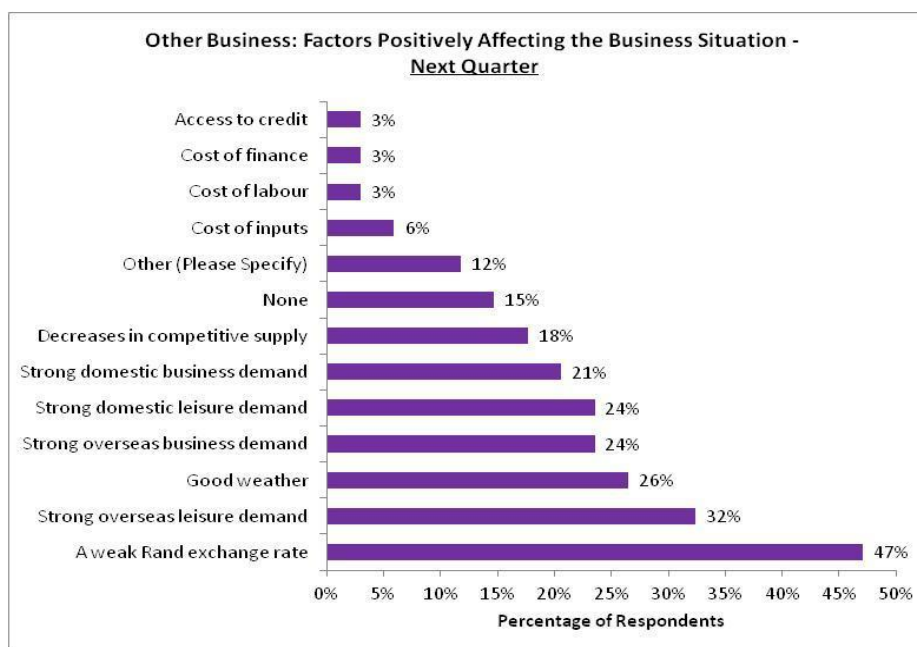
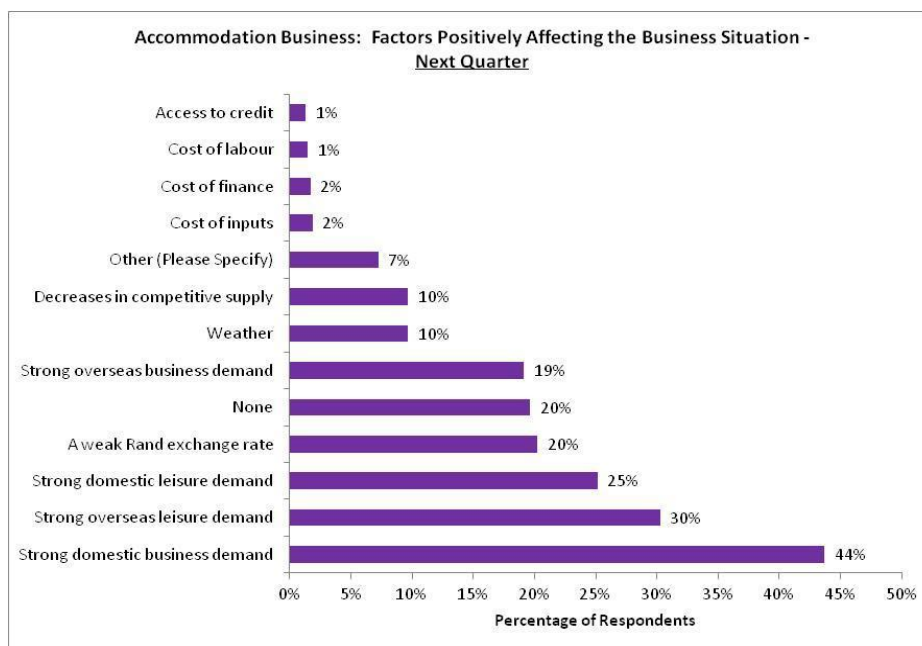


- While lower than the numbers of respondents (33% and 35% for Accommodation and Other respectively) citing insufficient overseas leisure demand as a negative factor last quarter, a significant number of respondents felt strong overseas leisure demand (22% for Accommodation Business and 24% for Other Tourism Business) was a positive factor. This suggests that while some businesses experienced positive numbers from the overseas leisure markets others felt demand was weak.



Positive Factors – Next Quarter

- Many respondents, for both the Accommodation Sector and Other Tourism Sector, are hopeful that the overseas leisure market will contribute positively to business performance in the next quarter with 30% and 32% of respondents respectively.



General Business Indicators

The Quarterly RMB/BER Business Confidence Index (“BCI”) from 2010 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

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 changed only slightly in Q4 2012, declining by one point to a level of 46. This means that slightly more than half of the respondents remain downbeat about prevailing business conditions.

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 104.6 against 100 for the fourth quarter, while the BCI recorded 46 against a normal of 50 in the fourth quarter of 2012, indicating that the Tourism Industry is slightly more optimistic about business conditions.

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 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	92.0	91.7	93.0

In 2012, the SACCI BCI has been reducing steadily each quarter (from a quarterly average of 97,4 for Q1,94 for Q2, 92.5 in Q3 and 92.2 for Q4).

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 the TBI. December however, did show a slight uptick in performance.

Respondents

For this edition of the TBI we received 169 responses, which are broken up into 128 within the accommodation sector and 36 responses from the other tourism business. Listed below are the businesses who participated in this quarter's survey.

Ad Hoc Respondents

5 Mountains Lodge and Spa
 Africa Regent Guest House
 Amici Guest Lodge
 ATC-African Travel Concept
 Baroque B&B
 Bay View Lodge
 Beachcomber Bay
 Birch Bush B&B
 Bit O' Bush B&B
 Blue Horizonbay Guest House
 Bordeaux Haven Guest House
 Bridge House
 Cape Pillars Boutique Guesthouse
 Castello Guest House
 Cathbert Country Inn
 Comfort House B&B
 Cornerstone B & B
 Country Lane Lodge
 Crocodile Nest B&B
 Dan Pienaar Guest House
 Dennis Road Guesthouse & Conference Centre
 Dunvegan Executive Lodge
 Eagle's Nest Guest House
 Eagle's View B & B
 Eden Guest Lodge
 Forest Manor Boutique Guesthouse
 Guest House
 Hermanus Lodge on the Green
 Heuglings Lodge
 Homestead House
 Honeypot B&B
 House of Bethel
 Kenings car Van and Truck Hire
 Kulungi Riverside Lodge
 La Barune Guest House
 La Fontaine Guest House

Little Scotia Guest House
 Malala Lodge
 Manaar House
 Mandela Rhodes Place Hotel & Spa
 Marita's Guest House
 NH The Lord Charles
 Nova Constantia Boutique Residence
 Oak Tree B&B
 Ocean Blue Guesthouse
 Owlhouse Backpackers
 Palm Cottage B & B
 Park Inn by Radisson Cape Town Foreshore
 Pete's Retreat Guest House
 Pinelake Marina
 Romney Park All Suite Hotel & Spa
 Rose Way Cottage
 Sandals Guest House
 Seaside Lodge
 Selati 103 Guest Cottages
 Selborne Bed and Breakfast
 Selkrik House
 Shamrock Arms Guest Lodge
 South of Africa
 Step-Aside Conference Centre
 Thaba Tsweni Lodge & Safaris
 The Albatross
 The Beach House on Tiffany's Bay
 The Cactus Palm b& b
 The Hyde ALI-Suite Hotel
 The Rezidor Hotel Group, Southern Africa
 Toverberg Backpackers
 Turaco Lodge
 Umbrella Tree B&B
 Underwood B&B
 Vineyard Hotel and Spa
 Wilderness Lagoon B&B

Pledge Respondents

12 Apostles Hotel & Spa
 3 Melrose Road
 A Roseland House
 Abangane Guest Lodge
 Assagay Country Guest House
 ATKV Resorts
 Avis Rent a Car
 Beach Cabanas
 Bill Harrop's "Original" Balloon Safaris
 Blue Jay Lodge
 Bohlele Safari & Golf Tours
 Bosavern Guest House
 Bosch Luys Kloof Private Nature Reserve
 Budget
 Bulungula Lodge
 Cedarberg African Travel
 City Lodge Hotels
 Click Afrika Tours
 Club Mykonos
 CMH Car Hire
 Cornwall Hill B&B
 Cresco Tours
 Crooked Tree Cottage
 C-Scape Tours & Safaris
 Dolphin View Holiday Apartments
 Dolphin's View Guest House
 Eight Bells Mountain Inn
 EQuanimity Bookings
 ERM Tours
 Europcar
 Go Safari
 Grande Roche Hotel
 Granny Dot's Country Spot
 Graton Guest House
 Grootbos Private Nature Reserve
 Group Sports Travel SA
 Guvon Hotels & Spas
 Hide-Away Guest House
 Holiday Inn Express (IsoLeisure)
 Hotel Numbi & Garden Suites
 JMT Tours & Safaris
 Journey Into Africa Tours & Safaris
 Kievits Kroon Country Estate
 Kwa-Lala B&B
 La Providence Guesthouse
 LAL Language Centres South Africa
 Legacy Hotels and Resorts
 Legend Lodges Hotels & Resorts

Lekkerby Guest House
 Lobelia Cottage
 Maropeng Visitor Centre and Sterkfontein Caves
 Mfafa Safaris
 Motswari Private Game Reserve
 Ocean View Bed and Breakfast
 Orion Hotels & Resorts
 Paradise Found
 Pavilion Conference Centre
 Place on the Bay
 Protea Hotels
 Queensburg Caravan Resort
 Rivonia Bed & Breakfast
 Rosetta House
 SAA
 Sandton ICC
 SANParks
 Sica's Guest House
 Signature Tours
 Sir Henry's Guesthouse
 Siyabona Africa
 Snappy Coach Hire
 Southern Sun Resorts
 Spier Resort Management
 Springbok Atlas
 Sun International
 Sunset Voyages
 Table Mountain Cableway
 Tanda Tula Safari Camp
 Tempest
 The Colonial on Arundel
 The Manderson Hotel & Conference Centre
 The Royal Hotel
 The Saffron House
 The Voortrekker Monument
 Thompsons Africa (Cullinan Group)
 Tourvest Accommodation and Activities
 Tourvest Retail
 Tourvest Travel Services
 Tsogo Sun
 Value South Africa
 Wailana Beach Lodge
 Westin Cape Town
 White Elephant Safari Lodge
 Winchester Mansions
 Wow Cape Town Tours
 Zinkwazi Lagoon Lodge