

TOURISM BUSINESS INDEX

Mainstreaming Travel and Tourism in the South African Economy

TBCSA FNB Tourism Business Index

3rd Quarter 2014 Results

Compiled by Grant Thornton

TBCSA FNB Tourism Business Index

Introduction

The Tourism Business Index (“**TBI**”) is an initiative of the Tourism Business Council of South Africa and is compiled by Grant Thornton.

The TBI provides an indication of the current and likely future performance of the various businesses operating within the Tourism Sector in South Africa. It profiles the industry and positions it as an important component of the South African economy.

The index is produced quarterly. The information for the TBI is collected through an online survey of tourism businesses completed after the end of the quarter.

The first official edition of the TBI was released on the 18th of January 2011.

The overall tourism index includes accommodation operators and responses from tour operators, coach operators, vehicle rental companies, airlines, travel agents, retail outlets, forex traders, conference venues and attractions. Two sub-indices are produced; “Accommodation” and “Other Tourism Businesses”

What is a Business Index?

The purpose of the TBI is to provide individual tourism businesses with regular, up-to-date information on the performance of tourism businesses, including the outlook for performance over the next three months. It therefore tracks actual recent business performance in the sector and is an indicator of prospects for short-term future performance.

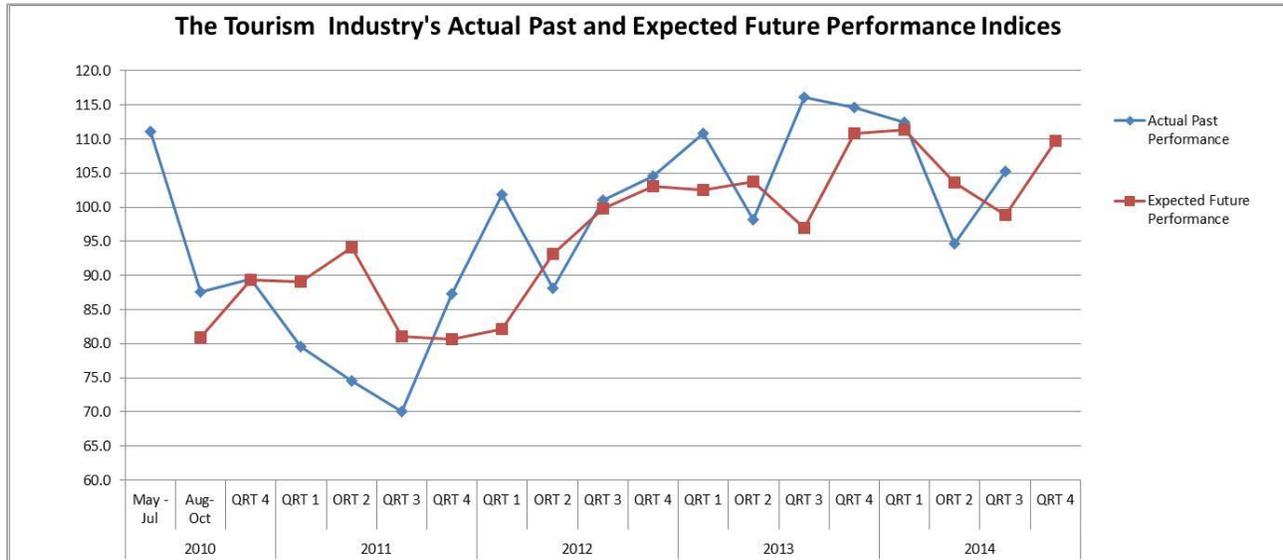
It is a business index that focuses on the performance and profitability of businesses operating in the sector, as oppose to a sector performance index. While in many instances the subtle distinction between the two approaches would not manifest in different results, in certain circumstances, they may be different. For example, if there is significant over-capacity in the industry, business performance can be weak, while the industry could be experiencing strong growth and making an increasing contribution to GDP. As the TBI tracks and forecasts tourism business performance, it is not separated into domestic and foreign tourism. Many tourism businesses host or handle both inbound and domestic tourists and therefore demand and characteristics in both major markets are inextricably linked to business performance.

The information is designed to help individual businesses and policy and strategy makers, understand the current tourism operating environment and plan for the likely future tourism industry environment.

Note: The first two surveys in 2010 were pilot surveys which did not follow exact quarters. They each covered 3 months from May to July 2010, then August to October 2010, while the last survey of 2010 covered the last quarter, i.e. October to December. October was therefore included in two indices. From the first official edition in 2011 onwards, only regular quarters are covered.

TBCSA FNB Tourism Business Index

The Tourism Business Index



- The Tourism Industry performed slightly better than normal and better than expected with an index of 105,3 compared to the forecasted 98,9 for Q3 2014. Performance is forecast to remain above normal next quarter (Q4 2014) at an index level of 109,8.
- The Accommodation Sector not only performed better than normal but also exceeded expectations achieving an index of 108,9 compared to the forecasted 102,4 for Q3 2014. Hotel group performance was poorer than that of the other tourist accommodation sectors.
- The Accommodation Sector is confident that business performance will be better than normal next quarter (Q4 2014) recording an index of 110,4; the highest recorded forecast since inception of this report.
- Similarly, the Other Tourism Businesses performed better than normal (102,5) as well as exceeded expectations (96,3) for Q3 2014. Poorer performance was experienced by Activities and Attractions, Conference Centres and Travel Agents, whilst the transport, retail and forex sectors performed slightly better.
- Other Tourism Businesses slightly better than normal business performance next quarter (Q4 2014) with an index of 109,4.

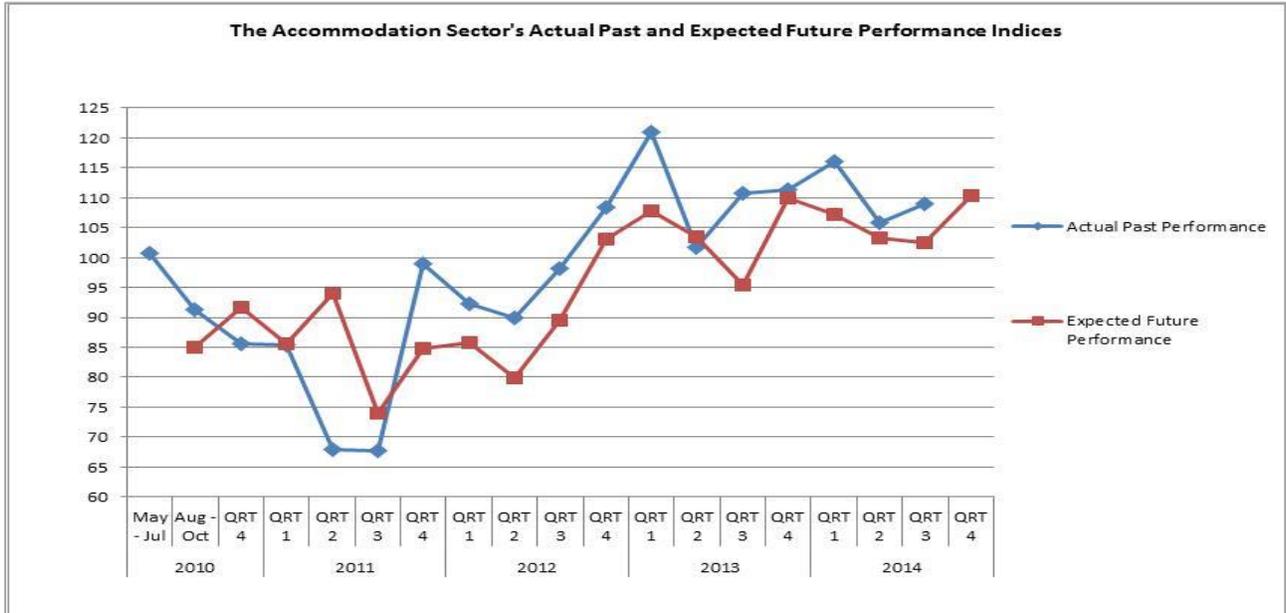
What is Normal?

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”.

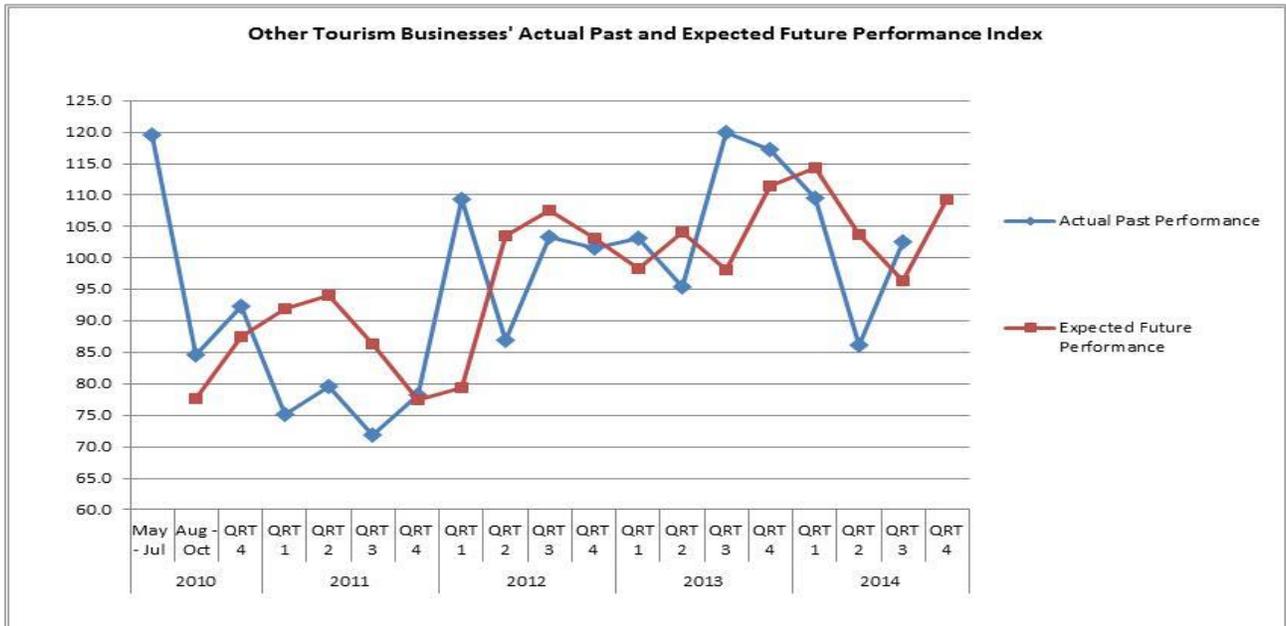
Normal is then calibrated to an index of 100. When the index shows Performance or Prospects at higher than 100, this indicates better than normal performance while, below 100 indicates worse than normal performance.

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



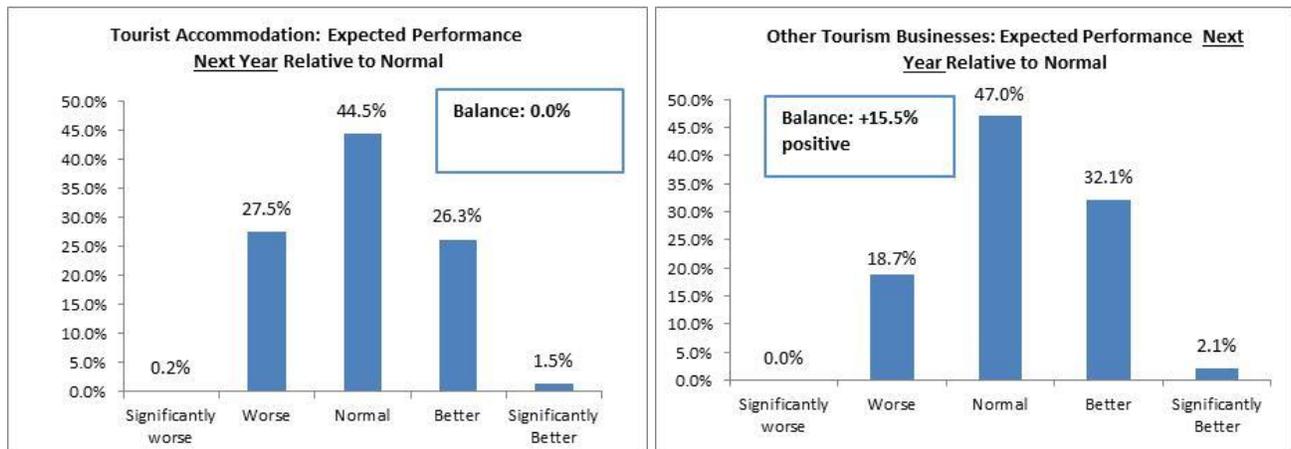
TBI Summary

		Overall		Accommodation		Other	
		Actual	Forecast	Actual	Forecast	Actual	Forecast
2011	1 st Quarter	79.6	89.1	85.3	85.5	75.1	91.9
	2 nd Quarter	74.5	94.1	67.8	94.0	79.6	94.1
	3 rd Quarter	70.0	81.0	67.7	73.9	71.8	86.4
	4 th Quarter	87.3	80.7	98.9	84.9	78.3	77.4
2012	1 st Quarter	101.9	82.2	92.2	85.8	109.3	79.4
	2 nd Quarter	88.2	93.2	89.9	79.8	86.9	103.5
	3 rd Quarter	101.0	99.8	98.1	89.6	103.3	107.6
	4 th Quarter	104.6	103.1	108.4	103.1	101.6	103.2
2013	1 st Quarter	110.8	102.5	120.9	107.8	103.1	98.4
	2 nd Quarter	98.2	103.8	101.7	103.4	95.4	104.2
	3 rd Quarter	116.1	97.0	110.8	95.5	120.0	98.1
	4 th Quarter	114.6	110.8	111.4	110.0	117.2	111.4
2014	1 st Quarter	112.4	111.3	116.1	107.3	109.6	114.4
	2 nd Quarter	94.7	103.6	105.8	103.2	86.2	103.8
	3 rd Quarter	105.3	98.9	108.9	102.4	102.5	96.3
	4 th Quarter		109.8		110.4		109.4

Balance Statistics

Almost half of the Accommodation Sector (44,5%) and Other Tourism Businesses (47%) expect business performance next year to remain normal. On balance the Accommodation Sector was neutral with equal respondents forecasting worse as well as better business performance next year. This is though trending downwards in terms of overall confidence in performance for the next year. Other Tourism Businesses continue their very optimistic expectations recording another strong positive at a balance statistic of +15,5%.

Next Year

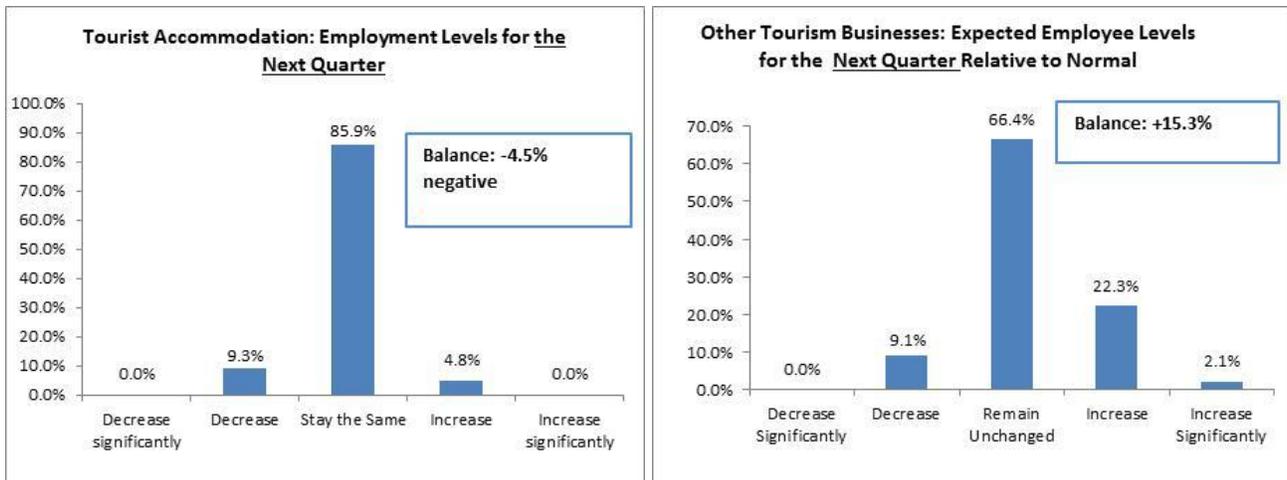


Summary of the Next Year Balance Statistic Historical Results

		Accommodation Sector	Other Sector
2011	1 st Quarter	-27.7%	+13%
	2 nd Quarter	-40.2%	-5.4%
	3 rd Quarter	-70.3%	-3.2%
	4 th Quarter	-53.0%	-16.9%
2012	1 st Quarter	-24.5%	+17.2%
	2 nd Quarter	-11.7%	+15.3%
	3 rd Quarter	-3.8%	+10.5%
	4 th Quarter	-0.6%	+37.6%
2013	1 st Quarter	+13.1%	+29.7%
	2 nd Quarter	-12.7%	+15.2%
	3 rd Quarter	-13.6%	+34.5%
	4 th Quarter	-22.4%	+28.4%
2014	1 st Quarter	+34.2%	+47.3%
	2 nd Quarter	+5.1%	+20%
	3 rd Quarter	0.0%	+15,5%

When looking at employment levels the expectation for next quarter is that it will largely stay the same / remain unchanged. 85,9% of the Accommodation Sector and 66,4% of Other Tourism Businesses intend to keep employee numbers the same next quarter. Even though the Accommodation Sector records a negative balance of -4,5%, it is still relatively optimistic compared to the significantly negative outlook in the beginning of the year - Q1 2014 with -49,7%.

Employment Levels

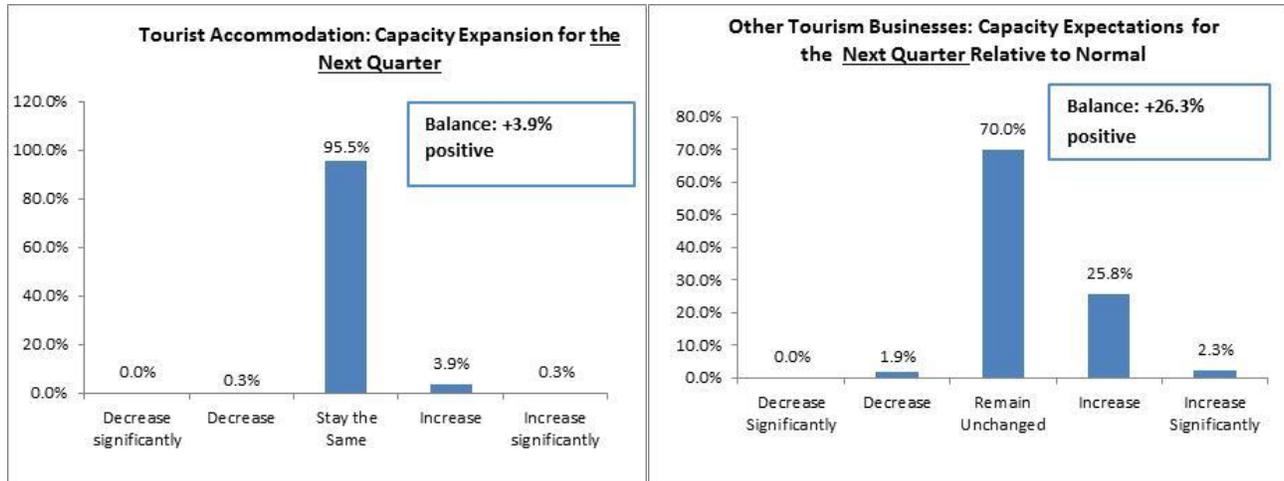


Summary of the Employment Balance Statistic Historical Results

		Accommodation Sector	Other Sector
2011	1 st Quarter	-23.7%	-28.9%
	2 nd Quarter	-25.3%	-12.3%
	3 rd Quarter	-17.4%	+1.8%
	4 th Quarter	-15.4%	+1.6%
2012	1 st Quarter	-17.3%	-3.0%
	2 nd Quarter	-3.9%	+7.4%
	3 rd Quarter	+ 6.4%	-0.6%
	4 th Quarter	+5.3%	-8.3%
2013	1 st Quarter	+0.9%	+12.5%
	2 nd Quarter	-0.2%	0.0%
	3 rd Quarter	+8.7%	+10.9%
	4 th Quarter	-19.4%	+8.8%
2014	1 st Quarter	-49.7%	+12.1%
	2 nd Quarter	+2.8%	+8.6%
	3 rd Quarter	-4.5%	+15.3%

When looking at capacity expansion, the Accommodation Sector’s expectation for next quarter is a low positive balance of +3,9% with the majority of respondents citing capacity will stay the same (95,5%). Likewise, Other Tourism Businesses also expect capacity to largely remain the same (70%) with the exception of a few that intend to increase (25,8%) and increase significantly (2,3%). Only a small proportion of Other Tourism Businesses forecasted a decrease (1,9%).

Capacity Growth Expectations



Summary of the Capacity Growth Balance Statistic Historical Results

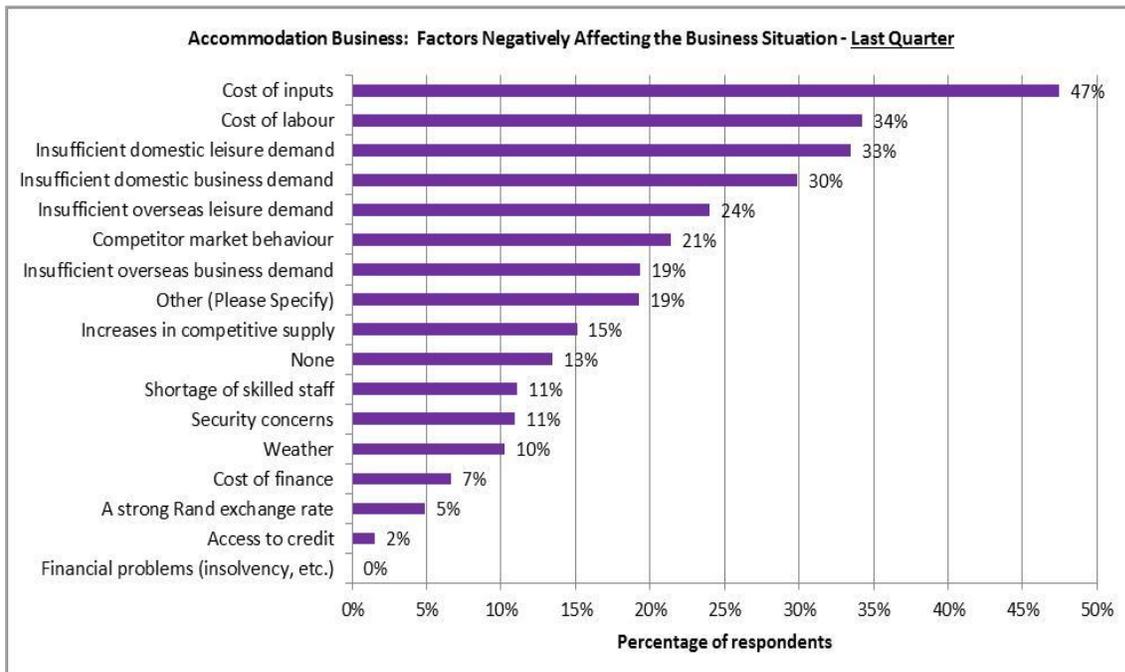
		Accommodation Sector	Other Sector
2011	1 st Quarter	+14.3%	-11.1%
	2 nd Quarter	+12.6%	+9.3%
	3 rd Quarter	+9.6%	+24.8%
	4 th Quarter	-3.3%	+21.0%
2012	1 st Quarter	+7.4%	+20.7%
	2 nd Quarter	+25.6%	+7.2%
	3 rd Quarter	+22.5%	+30.3%
	4 th Quarter	+11.1%	+26.1%
2013	1 st Quarter	+2.0%	+15.5%
	2 nd Quarter	-15.6%	+22.4%
	3 rd Quarter	+14.1%	+27.4%
	4 th Quarter	+5.4%	+40.7%
2014	1 st Quarter	+37.5%	+22.1%
	2 nd Quarter	+7.1%	+17.7%
	3 rd Quarter	+3.9%	+26.3%

Factors Affecting Business Conditions

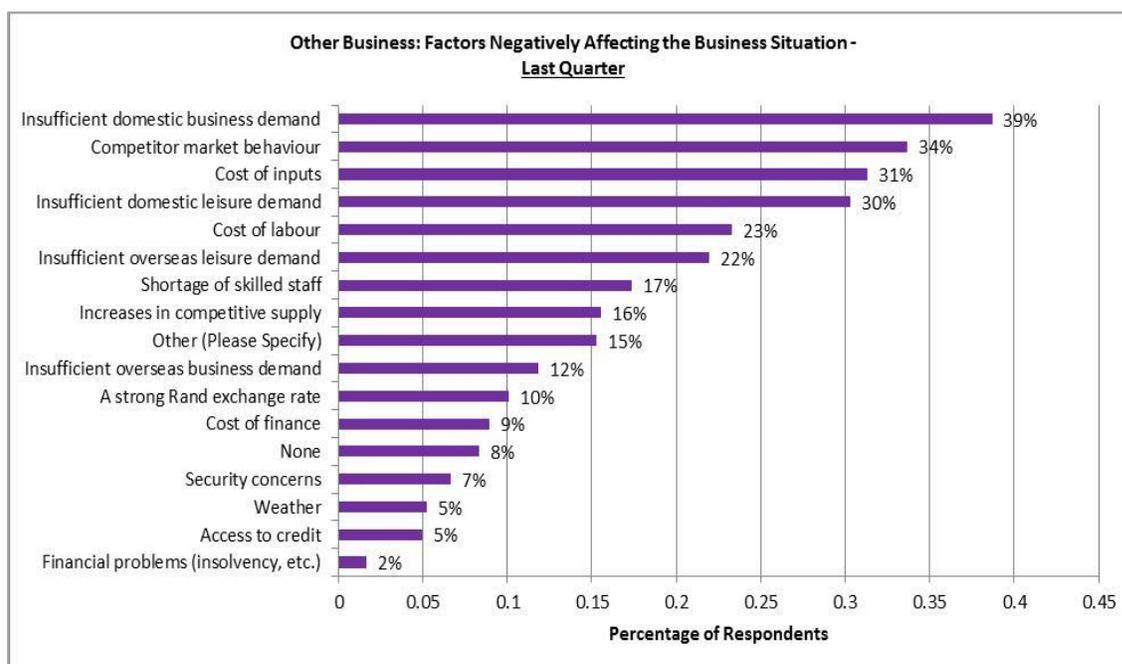
With regard to the performance of the Tourism Industry, the TBI considers both positive and negative factors which possibly have an impact on the performance of the industry.

Negative Factors – Last Quarter

- For the 9th consecutive quarter cost of inputs is the most cited negative contributing factor affecting business performance in the Accommodation Sector acknowledged by almost half of the respondents (47%).
- Cost of labour (34%) becomes more apparent in this edition ranking it the second most cited negative contributing factor. This is followed by insufficient domestic leisure (33%) and business (30%) demand.
- Other cited negative factors include:
 - Political uncertainty;
 - Aftermath of strikes;
 - Economic doldrums;
 - Security;
 - The Ebola virus;
 - High airline costs;
 - Water and power interruptions;
 - Reduced spending by government;
 - High utility costs, rates and taxes;
 - Competition from unregistered / unlicensed establishments; and
 - Change of ownership.

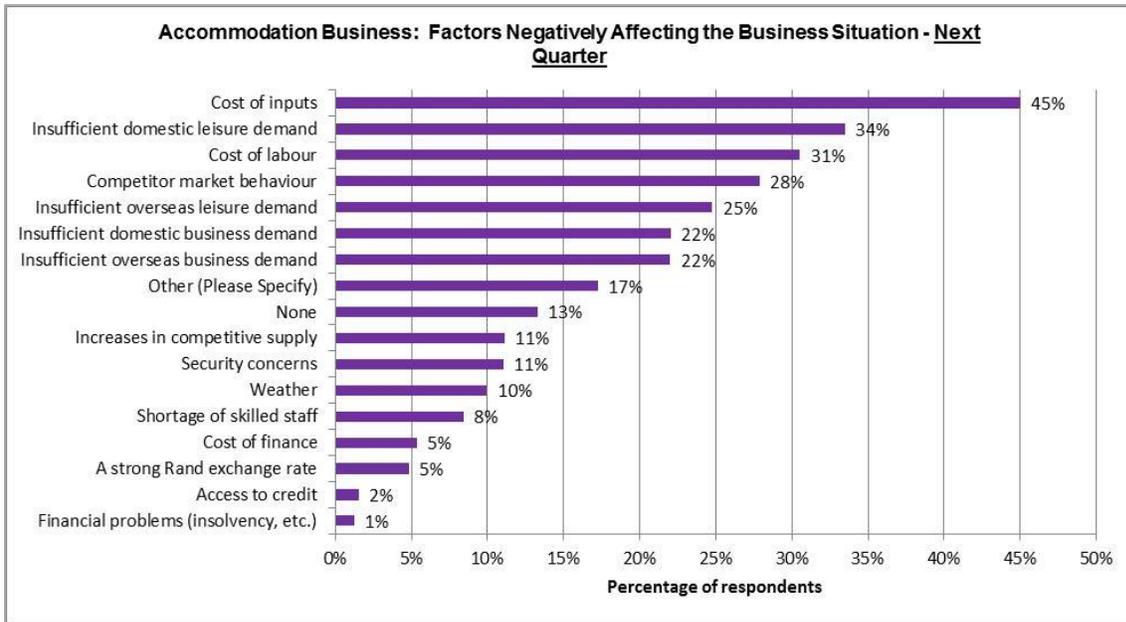


- Insufficient domestic business demand (39%), competition market behaviour (34%), cost of inputs (31%) and insufficient domestic leisure demand (30%) features considerably for the last quarter for the Other Tourism Businesses.
- Other cited negative contributing factors include:
 - The impact of Ebola causing international delegates to cancel meetings / conferences due to fear of contraction;
 - School and public holidays during the middle of the week;
 - Clients not paying on time;
 - Economic doldrums; and
 - Labour law regulations.

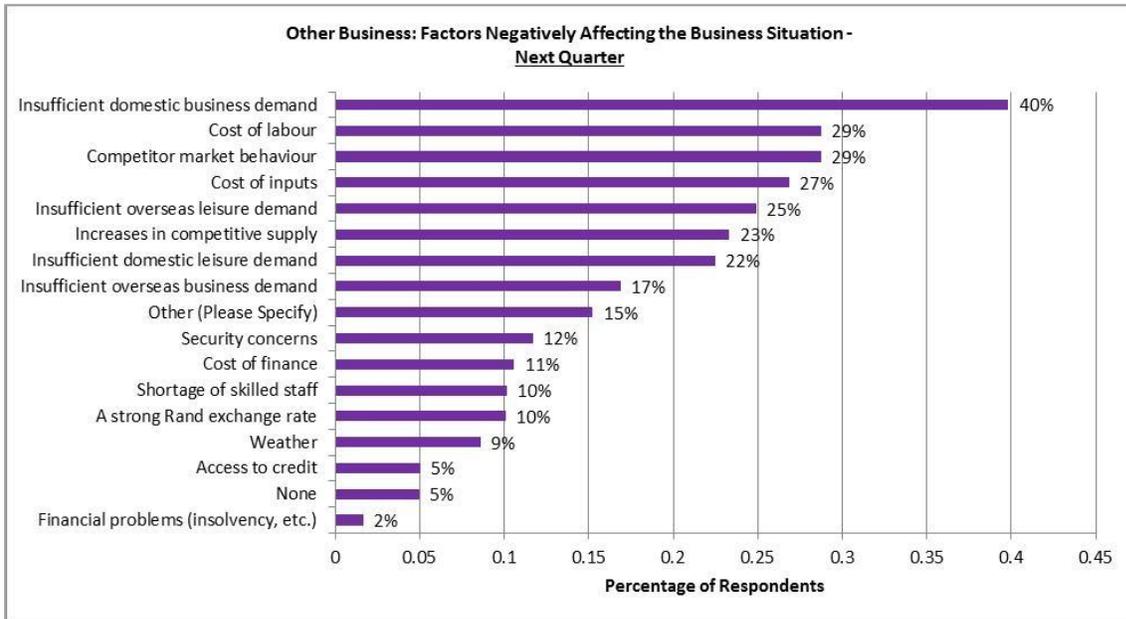


Negative Factors – Next Quarter

- Once again, cost of inputs continues to remain an expected significant negative contributing factor for next quarter for the Accommodation Sector cited by 45% of their respondents.
- Additional comments not already mentioned for the last quarter include impending tax hikes and poor public sector service delivery.

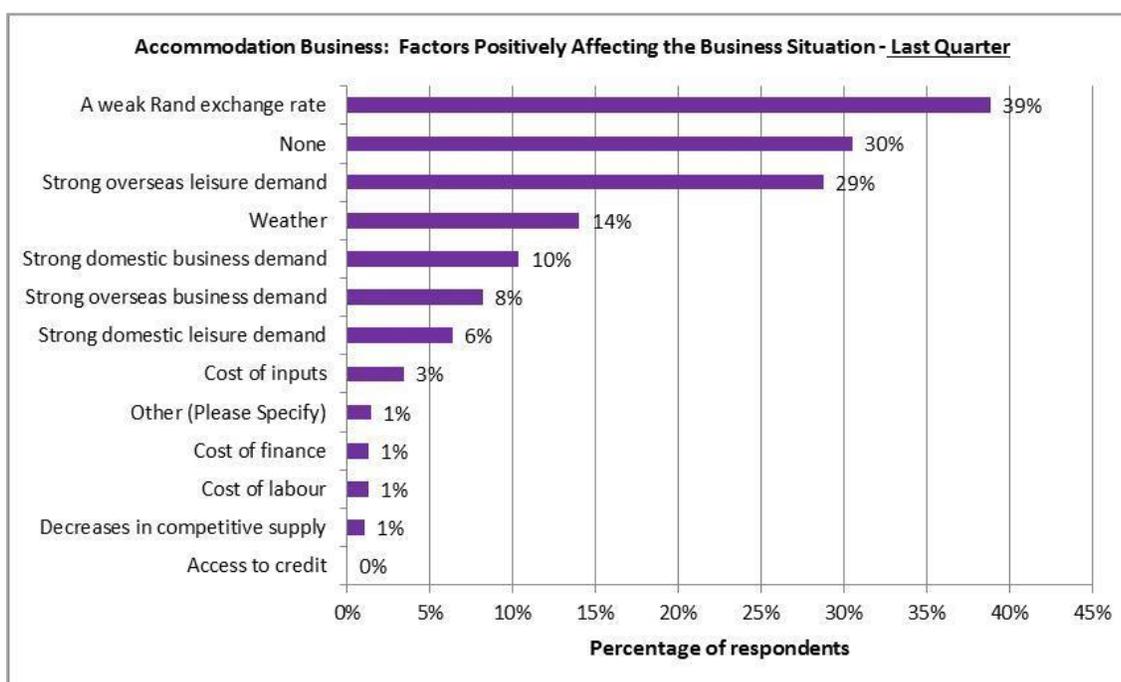


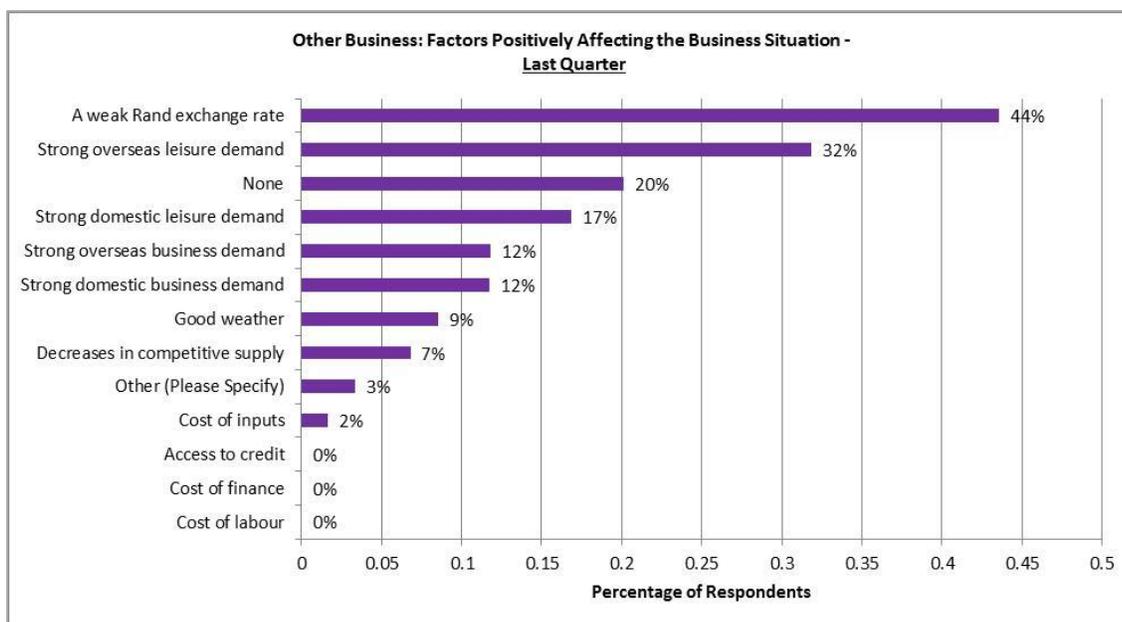
- Insufficient domestic business demand (40%) is expected to have a major negative effect on business performance for almost half of the Other Tourism Businesses.



Positive Factors – Last Quarter

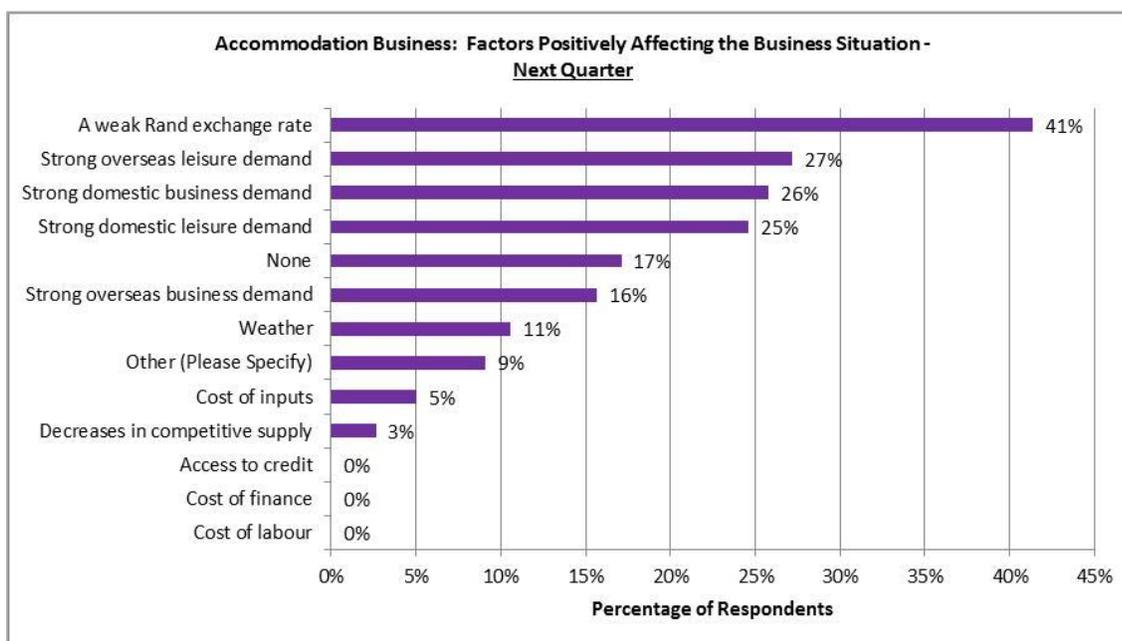
- A weak exchange rate continues to remain one of the major positive contributing factors with 39% citing it for the Accommodation Sector and 44% for the Other Tourism Businesses.
- A large proportion of both the Accommodation Sector (30%) and Other Tourism Businesses (20%) respondents cite no positive contributing factors for last quarter.
- Strong overseas leisure demand was an important factor for Accommodation Businesses (29%) and Other Tourism Businesses (32%).
- Other cited positive contributing factors include the national elections and the ability to provide competitive rates.

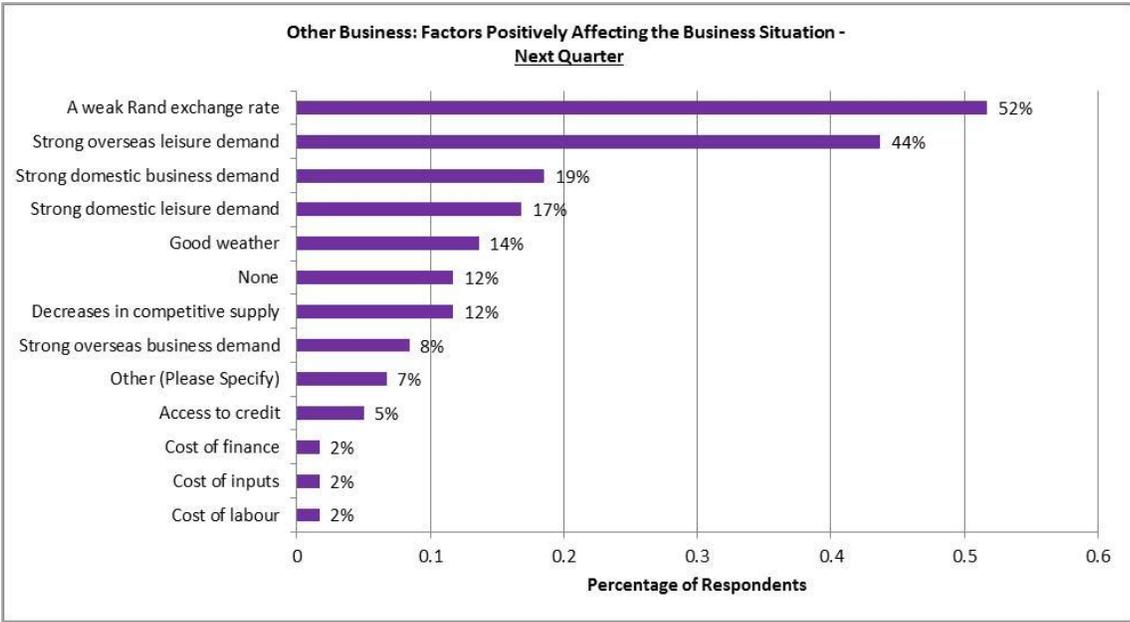




Positive Factors – Next Quarter

- The weak rand exchange rate is expected to continue to have a positive impact on most businesses in the Accommodation Sector (41%) and Other Tourism Businesses (52%) for the next quarter.
- Positive influences include identifying other avenues of increasing exposure and Christmas holidays.





- The Accommodation Sector is expecting fairly strong demand from overseas leisure and domestic leisure and business (between 25% and 27%), while Other Tourism Businesses are particularly expecting strong overseas leisure demand (44%).

Additional Questions this Quarter

Specific to this quarter, we investigated key issues that are on everyone's mind - the Ebola outbreak, unabridged certificates and biometric visas / presentation in person at embassies / consulates. The outcomes are as follows:

Question: What level of impact, if any, do you think the Ebola outbreak has had on your business?

- The majority of respondents in the Accommodation Sector state that they have not experienced any impact on business as a result of the Ebola outbreak.
- A significant number of Travel Agents, Tour Operators, Car hire and Conferencing businesses cited negative impacts as a result of the Ebola outbreak making up 55% of all responses.

	Overall	Accommodation Sector	Other Sector
N=	91	51	40
Significantly negative impact	5%	6%	5%
Somewhat negative impact	34%	22%	50%
No impact / neutral	60%	73%	45%
Positive impact	0%	0%	0%
Significantly positive impact	0%	0%	0%
Total	100%	100%	100%

- Comments made include
 - "Travellers think that South Africa is close to West Africa; think they may come into contact with Ebola carriers"
 - "Africa is Africa and the fact that the Ebola outbreak is 1 000's of kms is not always apparent to travellers."
 - "The rest of the world does not understand that Africa is very big, and that we are nowhere near the outbreak"
 - "Clients not willing to share conference with delegates from West Africa. In one instance, parents of international youth delegates were not willing to send their children to Africa"
 - "Although we have not had a major effect from Ebola it is evident that the booking pace is slowing down for the next quarter and 2015 which can be attributed to the Ebola outbreak given feedback received from source agents"

Question: Has the pending requirement (albeit changing in timetable) for children to carry unabridged birth certificates had a direct impact on your business?

- The unabridged birth certificates have had either no impact or neutral impact on the majority of businesses across the Tourism Industry.
- Greater numbers of Other Tourism Business cite negative impacts as a result of this compared to the Accommodation Sector.
- A significant number of Tour Operators and Hotel Groups cite negative impacts.

	Overall	Accommodation Sector	Other Sector
N=	91	52	39
Significantly negative impact	7%	6%	8%
Somewhat negative impact	21%	13%	31%
No impact / neutral	60%	69%	49%
Not applicable	12%	12%	13%
Total	100%	100%	100%

- Comments made include:
 - “Unabridged certificate impacts will affect the Asian business”
 - “There is simply not enough resources at home affairs to attend to the requests for local travellers, and for international travellers, not all countries have such documentation in place. It has merely created barriers for selling South Africa as a destination”

Question: Has the requirement for biometric visas / presentation in person at embassies / consulates had a direct impact on your business?

- A considerable number of respondents feel that biometric visas / presentation in person at embassies / consulates has had no impact on their business performance with just over half citing no impact / neutral impact. Hotel Groups and Tour Operators are more likely to have experienced a negative impact s. Typically B&B s/ Guesthouses and smaller Conferencing businesses do not consider this question applicable to them.

	Overall	Accommodation Sector	Other Sector
N=	91	52	39
Significantly negative impact	10%	6%	15%
Somewhat negative impact	25%	31%	18%
No impact / neutral	55%	56%	54%
Not applicable	10%	8%	13%
Total	100%	100%	100%

- Comments made include:
 - “Had R3 million Korean group cancel as they could not get visas in time”
 - “The new visa requirement has not as yet affected us, but I am sure it could and will certainly affect high tourism areas very negatively”
 - “No impact at present but can definitely envisage this affecting the number of tourists in the future as additional security measures are put in place”
 - “No lead in time for proper systems to be put in place and from Dept. Home Affairs - however well intentioned - insufficient research and consultation with the Tourism Industry”
 - “Little or no Visa application centres around the world”

General Business Indicators

The Quarterly RMB/BER Business Confidence Index (“**RMB/BER**”) is shown in the table below.

	Quarter 1	Quarter 2	Quarter 3	Quarter 4
2010	43	36	47	44
2011	55	48	39	38
2012	52	41	47	46
2013	52	48	42	43
2014	41	41	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, 2012 and 2013.

According to the RMB/BER Index business confidence upswings slightly between Q2 and Q3 2014. With regard to Q3 2014, the BER reflects a slightly lower than normal performance whereas the TBI shows a better than normal performance for the same period.

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, the BER only attained this in early 2013. Both indices slipped into negative territory in the second quarter of 2013. The TBI recorded a performance index of better than normal for 3 quarters from Q3 2013, while the BER remained below normal indicating that the Tourism Industry experienced better business conditions than the market place in general. For 2014 the Tourism Industry has also indicated better performance than the BER index indicates for the economy generally, but both indices have ticked up in the 3rd quarter.

The RMB/BER is a business tendency survey based on OECD methodology as is the TBCSA TBI.

The SACCI Business Confidence Index (“**BCI**”) is a composite indicator, as oppose to a tendency survey. The BCI is a market-related index that reflects not what business is saying, but what it is doing and experiencing. It is therefore not an opinion/perception-based index. Even though the BCI is not a tendency survey like the TBI, it is another regular and timeous indicator of economic activity to which the TBI can be compared.

The index is based on the average economic activity for 2005 being a base of 100. The index rose above 100 in 2006 reaching 119 at its highest level and stayed above 100 in the early part of 2007 and thereafter declined.

The SACCI BCI from 2011 -2014 is presented in the below table.

Year	2011											
Month	Jan	Feb	March	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
SACCI BCI	103.1	101.9	104.2	102.5	101.2	102.4	99	98.6	98.4	97.5	97.4	99.1
Quarterly Average	103.1			102.0			98.7			98.0		
Year	2012											
Month	Jan	Feb	March	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
SACCI BCI	97.1	99.5	95.7	94.3	92.8	94.9	90.9	95	91.7	92	91.7	93
Quarterly Average	97.4			94.0			92.5			92.2		
Year	2013											
Month	Jan	Feb	March	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
SACCI BCI	94.0	93.0	90.4	92.3	90.4	90.2	90.7	90.5	91.4	91.1	90.8	91.9
Quarterly Average	92.5			91.0			90.9			91.3		
Year	2014											
Month	Jan	Feb	March	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
SACCI BCI	90.5	91.9	92.7	92.6	88.9	89.7	87.9	89				
Quarterly Average	91.7			90.4								

Q3

The SAACI BCI also indicates weaker general economy performance, which is not improving, compared to the tourism industry’s better than normal performance which has improved in the 3rd quarter.

The accommodation sector’s performance in terms of occupancies and RevPAR as reported by Smith Travel Research are shown in the table below.

		Quarter 1			Quarter 2			Quarter 3			Quarter 4		
Occupancy		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Occupancy	2012	52.4%	62.8%	63.3%	55.6%	57.2%	56.7%	56.9%	56.6%	64.1%	66.1%	67.8%	58.9%
	2013	56.9%	69.2%	65.8%	58.9%	57.9%	55.4%	56.8%	59.7%	64.5%	68.1%	69.7%	62.0%
	2014	57.4%	68.7%	66.3%	59.4%	58.2%	56.2%	58.5%	62.9%	N/A			
Quarterly average	2012	59.5%			56.5%			59.2%			64.3%		
	2013	64.0%			57.4%			60.3%			66.6%		
	2014	64.1%			57.9%			60.7%					
Revpar		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
	2012	R 476	R 596	R 567	R 488	R 498	R 476	R 470	R 472	R 549	R 598	R 625	R 575
	2013	R 558	R 716	R 646	R 548	R 539	R 503	R 516	R 549	R 600	R 674	R 707	R 731
	2014	R 627	R 795	R 702	R 602	R 563	R 532	R 542	R 603	N/A			
Quarterly average	2012	R 546			R 487			R 497			R 599		
	2013	R 640			R 530			R 555			R 704		
	2014	R 708			R 566			R 573					

* Note - those highlighted in red are missing September 2014 figures

The STR Revpar data follows the same trajectory in 2014 as the Accommodation TBI with a highest 1st quarter performance, lowest 2nd quarter performance and slight uptick in 3rd quarter performance.