



**FNB**  
First National Bank



Tourism Business Council of South Africa  
*one voice for tourism*



Grant Thornton

# FNB TBCSA Tourism Business Index

Compiled by Grant Thornton Strategic Solutions

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## 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. During this time it was adjusted and extended, with a key aim to increase the sample of respondents, particularly into certain key sectors and sub-sectors.

The first pilot TBI was done over the World Cup period. This allowed incorporation of World Cup results into the indices and analyses and the second pilot was done in October 2010.

For this first official edition of the TBI, the accommodation sector and non-accommodation respondents have an adequate sample size, enabling two sub-indices to be produced. The overall tourism index includes accommodation respondents and responses from airlines, tour operators, coach operators, car hire companies, travel agents, tourism retailers, foreign exchange providers, conference centres and attractions.

The responses from the airline, scheduled coach operators and car rental companies are regrettably still too few to allow for the development of a tourism transport sub-index. The intention is to expand on the number of responses within this sector so that a meaningful tourism Transport sub-index can 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 understand the current tourism operating environment and plan for the likely future tourism industry environment.

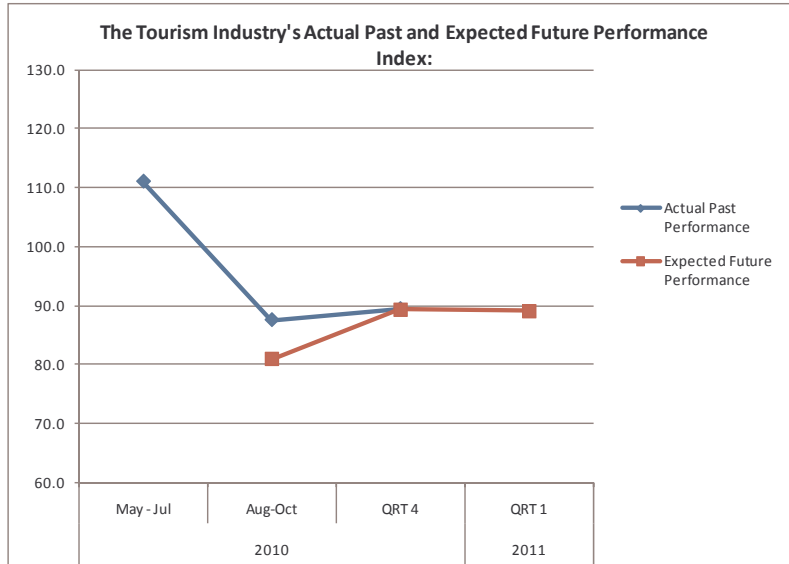
The TBCSA would like to encourage businesses in tourism and particularly these sectors to participate in the TBI survey.

In later TBI editions, results may be broken down by region and sub-sector. The ultimate aim would be to cover sub-sectors, by type, size and region.

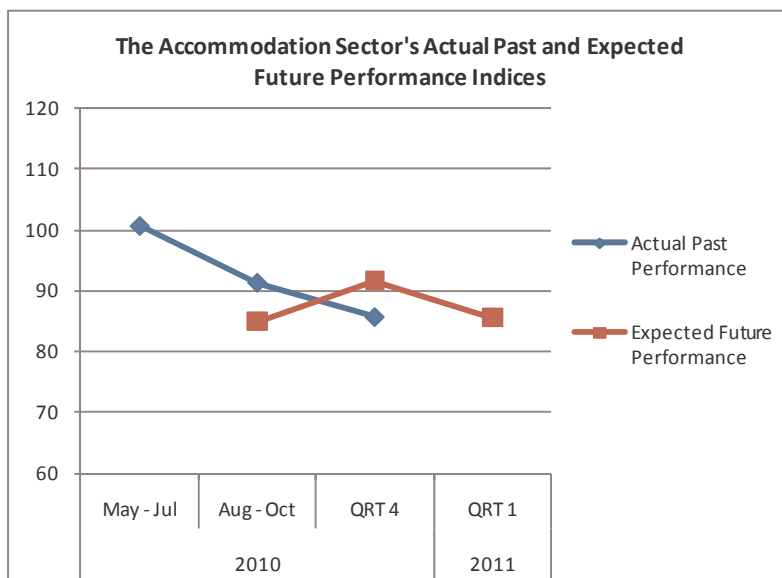
This edition of the TBI is based on responses from a wide range of tourism businesses. The information is collected through an online survey of tourism businesses that takes no more than 15 minutes to complete. Businesses submit data after the end of the quarter.

Note: The pilot surveys over the last 7 months did not follow exact quarters. The first two pilots each covered 3 months from May to July, then August to October, while the last survey of 2010 covered the last quarter, ie October to December. October was therefore included in two indices. Now the TBI is moving out of the initial pilot phase, only regular quarters will be covered.

## The Tourism Business Index



For the last quarter of 2010 the TBI registered a performance index of 89,4 against a normal of 100. When compared to the expected industry performance index of 89,4 for the last quarter of 2010, the industry has, overall, performed more or less as expected. However, this is due to differences in the expected performance for each sub-sector, as the actual performance of other tourism businesses was better than had been expected, and the performance of the accommodation sector was worse than had



been expected.

### 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.

The accommodation sector performance in the last quarter to 2010 registered 85,7 compared to an expected much better performance of 91,7, indicating that overall accommodation businesses have had a poor quarter compared to their expectations, and are operating well below normal levels. This poorer than expected performance may be what leads to the poor outlook for performance remaining at the 85,5 level.

This poor accommodation sector performance index is largely influenced by the large hotel groups and the smaller independent lodges during the last quarter of 2010 which performed well below normal. The accommodation index was also depressed by the worse than normal performance experienced by B&Bs and guest houses and self-catering and camping respondents. In contrast the independent hotels, the large lodge groups and the timeshare respondents actually recorded higher than normal levels of performance.



Other tourism businesses had the lowest performance during the last quarter of 2010 with an index of 84,6. However, when this performance is compared to the sector's expected performance index of 77,7 for the fourth quarter, this sector of the tourism industry did perform better than had been expected.

Within the other tourism businesses sector, conference centres and travel agents recorded significantly better than normal performances, and car hire slightly better than normal, while on the other hand, retail and FOREX operators recorded the poorest performances. The remaining business in this sectors recorded performance levels slightly lower than normal.

It seems that the World Cup certainly lifted performance of other tourism businesses significantly, but that the post World Cup months were tough to operate in, though less tough than expected.

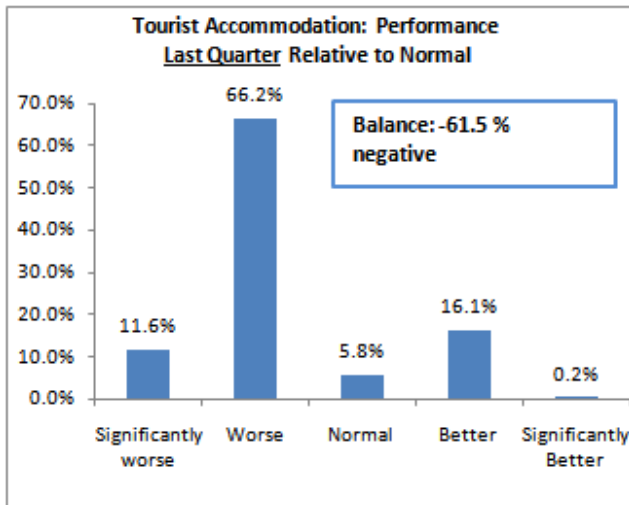
The overall industry outlook also remains below normal at 89,1, just slightly lower than last quarter's actual performance level.

Travel agents showed the most bullish outlook, expecting that their significantly higher than normal performance levels during the last quarter of 2010 will continue into the first quarter of 2011. Retail operators are expecting that their performance levels will increase during the next quarter, to levels just below normal. Lodges feel the most negative about the first quarter of 2011, while the hotel groups are expecting most improvement in their performance levels in the first quarter of 2011.

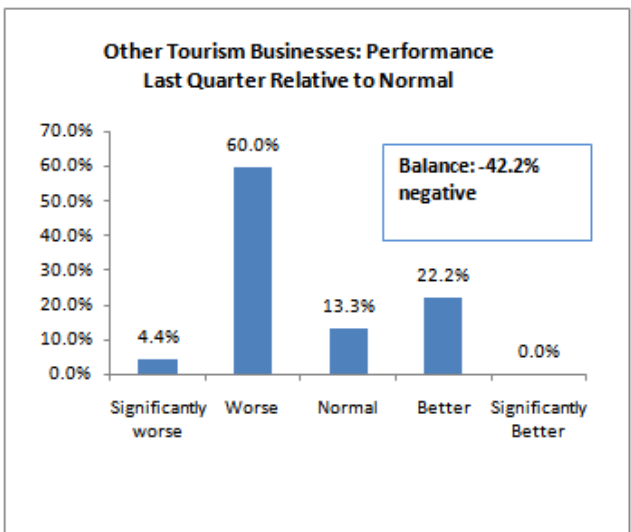
## Balance Statistics

### Last Quarter

Considering the balance statistic, the accommodation sector was very negative about the last quarter of 2010, illustrated in the negative balance statistic of -61,5%. This indicates that these operators felt that they had performed even worse than expected when compared to the negative balance statistic of -45,7% these operators expected for this quarter. This highly negative outlook is as a result of 66,22% of the respondents feeling that their business performance was worse than normal during the last quarter, while only a small percentage recorded performance levels above normal. Only 5,8% of the respondents experienced normal performance levels, while 11,6% experienced significantly worse than normal performance levels. This is no doubt concerning for the industry, taking into consideration the over-supply and recessionary conditions which are still very prominent in the accommodation market.



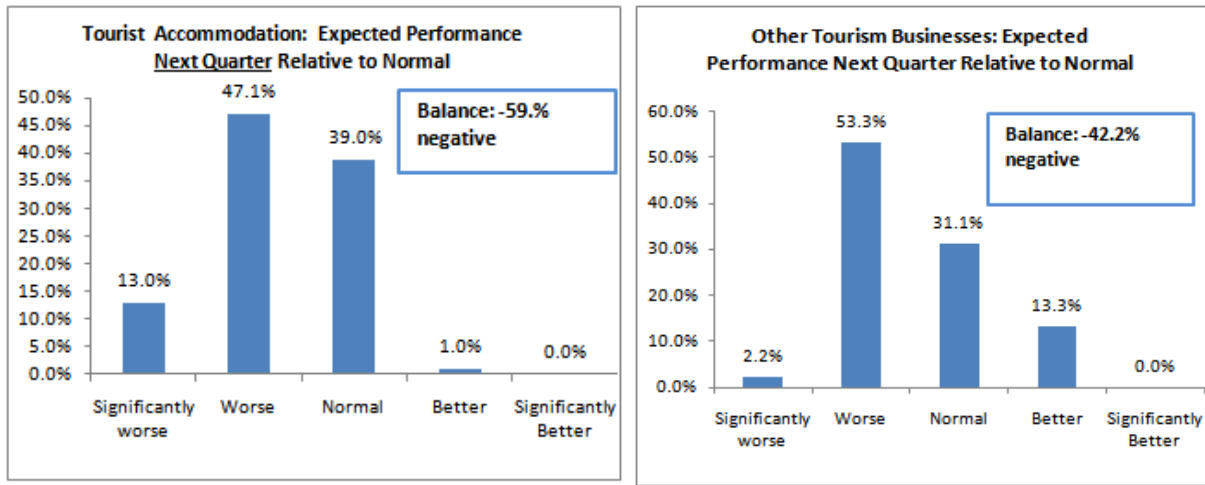
The other tourism businesses were slightly less pessimistic about the last quarter of 2010 with a negative balance statistic of -42,2%. The majority (60%) of these business operators feel that their performance levels during the last quarter of 2010 were worse than normal, while only 22% of the respondents recorded performance levels better than normal. 13.3% indicated normal performance levels during this quarter.



**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.

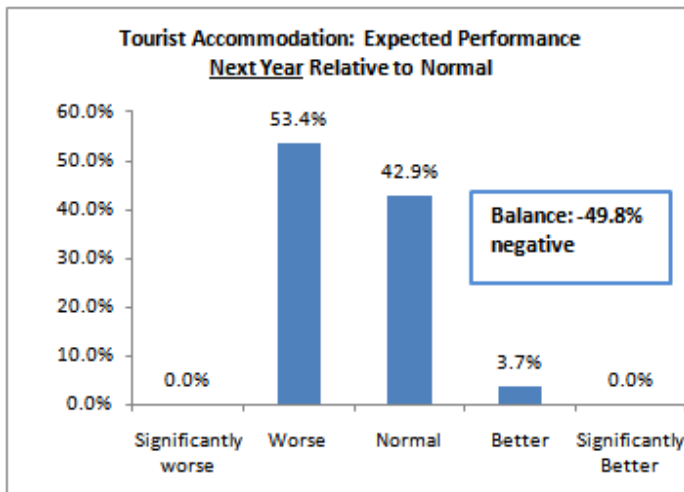
**Next Quarter**



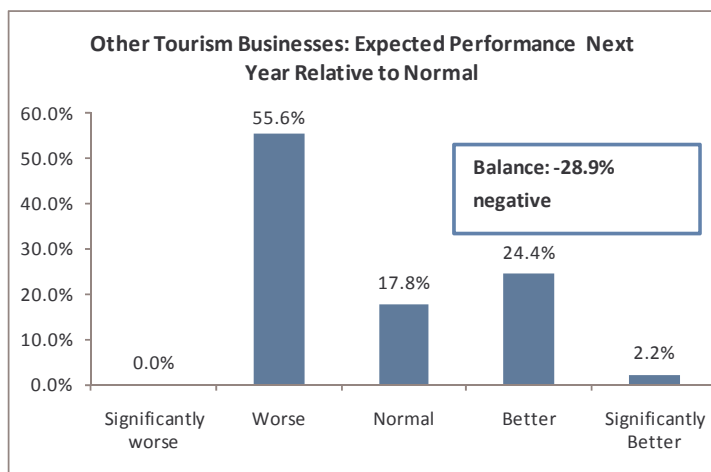
For the next quarter, the accommodation sector is once again strongly negative (-59.1%) about their performance levels. The majority of the accommodation operators (47.1%) felt that their performance levels during the first quarter of 2011 will be worse than normal, while 13,0% felt that their performance will be significantly worse than normal. However, a significant number of respondents (39,0%) felt that that the next quarter’s performance levels will return to normal.

Other tourism businesses are slightly less pessimistic, with a balance statistic of -42,2%. Only a small amount of operators (2,2%) felt that their performance levels within the first quarter of 2011 will be significantly worse than normal, while 31,1% are expecting normal business levels and 13,4% better than normal.

**Next Year**

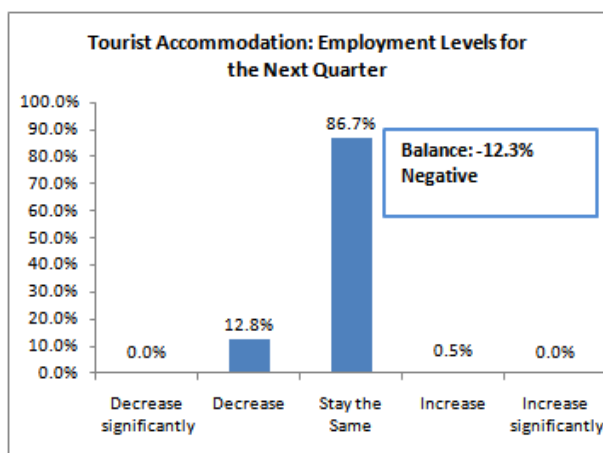


When considering the next year (as appose to the next quarter) overall prospects improve slightly. The accommodation sector remains negative on balance, indicating performance levels of (-49,8%). Minimal numbers (3,7%) of accommodation businesses expect better than normal performance whilst 42,9% and 53,4% expect the business levels to be normal and worse than normal respectively.



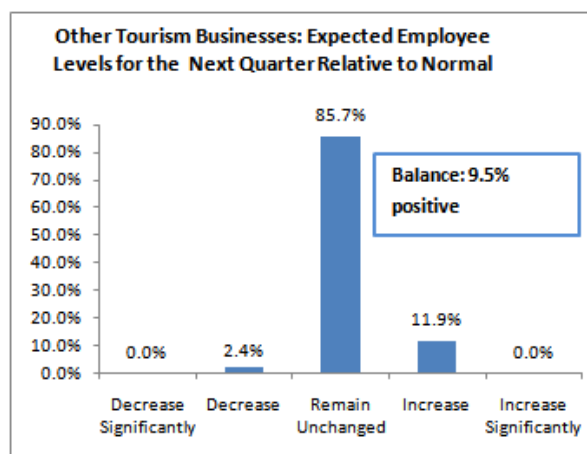
Overall the other tourism businesses are more optimistic about the next year, indicating a decrease in their negative expectations. This sector’s balance statistic for the next year is still however negative at -28,9%. Even though the majority of the operators (55,6%) expect performance levels worse than normal, 24,4% are expecting better than normal performance levels while a small number (2.2%) are actually expecting significantly better than normal business performance levels during the next year.

**Employment Levels**



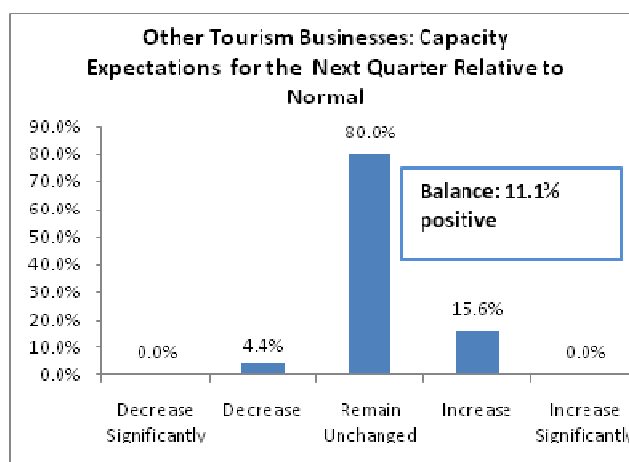
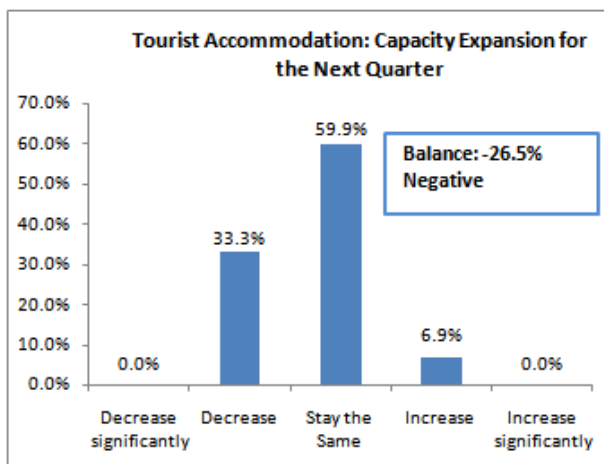
The accommodation sector has a negative expectation regarding their employment levels within the first quarter of 2011. 12,3% Of the respondents believe that their employment levels will actual decrease, while only a miniscule amount (0,5%) of the respondents are expecting a slight increase in their employment levels. The fact that 86,7% of the respondents felt that their employment levels will remain unchanged, regardless of their pessimistic outlook regarding their business performance levels in the future, indicates that majority of the establishments will retain their employees even if the business situation is tough.

In contrast, the other tourism businesses expect growth in their future employment levels with a positive balance statistic of 9,5%. Furthermore, 85,7% felt that their employment levels will remain the same, while 11,9% reported the expectation of an increase in their work force. This indicates the possibility of employment growth within this sector of the tourism industry and possibly relates to cut backs that went further than required in anticipation of a tough post World Cup period.





### Capacity Growth Expectations

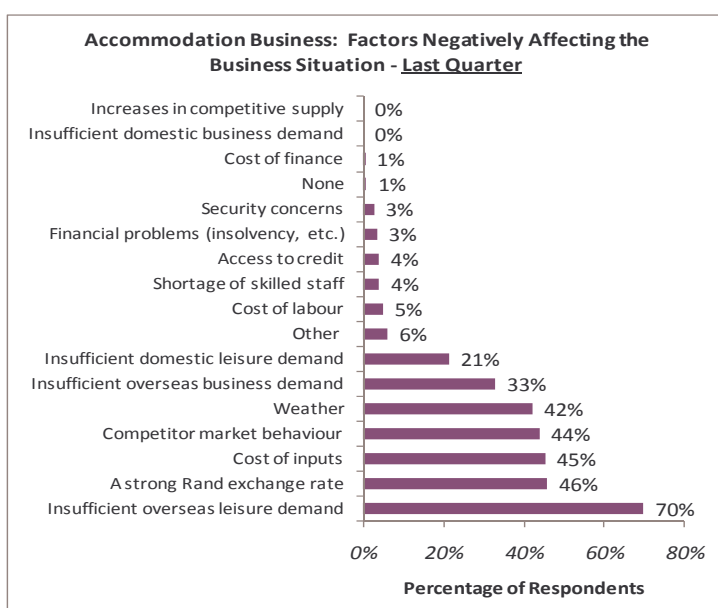


The accommodation respondents indicate limited plans to bring on extra room/unit capacity within the next quarter. 59,9% of the respondents indicate that their capacity is expected to remain the same, while 33,3% actually indicate a decrease in their room/unit capacity. Only a small number of respondents (6,9%) indicate an expected increase in the room capacity during the first quarter of 2011.

Once again the other tourism businesses are contrasting with a positive balance statistic of 11,1%. The majority of the respondents (80,0%) are expecting that their capacity will remain unchanged over the first quarter of 2011, however 15,6% actually felt that their capacity will increase. Only a very small number of respondents (4,4%) expect their capacity to decrease.

### **Factors Affecting Business Conditions**

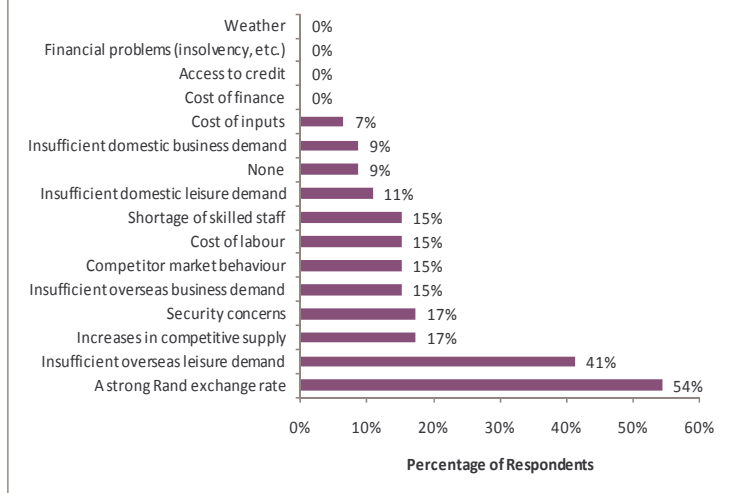
When considering the performance of the Tourism Industry, this report considered both positive and negative possible factors which could impact on the performance of the different sectors.



### Negative Factors - Last Quarter

In the accommodation sector, 70% of the respondents reported insufficient foreign leisure demand as the most negative impacting factor during the last quarter of 2011. This was closely followed by a strong Rand exchange rate, competitive market behaviour and the costs of inputs (46%-44%). Insufficient overseas business demand (33%) and insufficient domestic leisure demand (21%) are other important contributing factors. Noteworthy is that only 4% of the respondents felt that the shortage of skilled staff negatively affected their business during the last quarter of 2010.

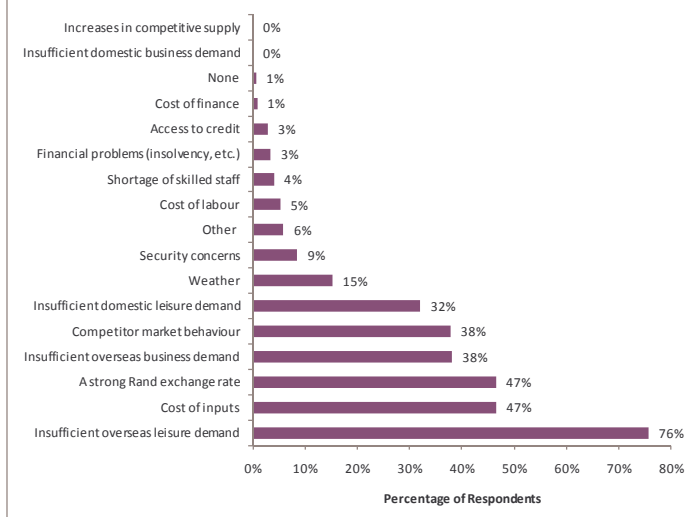
### Other Business: Factors Negatively Affecting the Business Situation - Last Quarter



Some of the respondents felt that the extreme weather conditions in Europe during the last half of December 2010 had a very negative impact on the accommodation sector. Other respondents felt that the oversupply within the accommodation sector after the 2010 FIFA World Cup and the changing TGCSA standard had impacted negatively on their operations.

Other businesses indicate more impediments to business performance in the last quarter, with a strong exchange rate (54%) being indicated as the main negative contributing factor. Reduced foreign leisure demand (41%), insufficient foreign and domestic business demand (15% and 9%), security concerns (17%) and the competitive market behaviour (15%) were all perceived as strong negative impacting factors. The factors which least impacted these businesses were: access to credit; cost of finance and weather. Contrasting to the accommodation sector, 15% of the respondents felt that the shortage of skilled staff negatively affected their business operations during the last quarter of 2010.

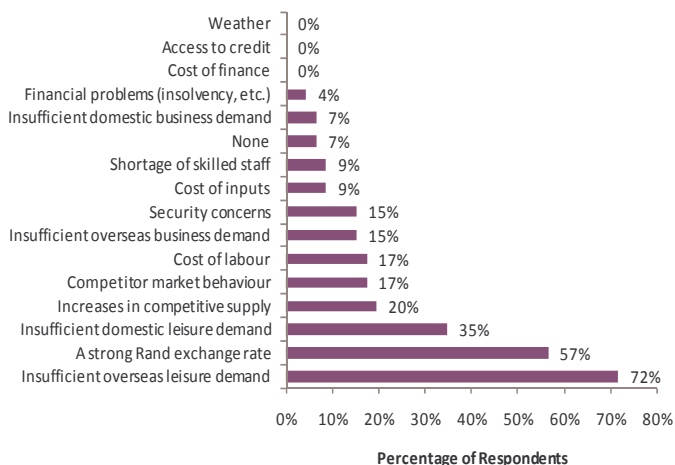
### Accommodation Business: Factors Negatively Affecting the Business Situation - Next Quarter



### Negative Factors - Next Quarter

Once again over the first quarter of 2011, the lack of foreign leisure demand is expected to have the biggest negative impact on the accommodation sector's operations. A strong exchange rate (47%), the costs of inputs (47%) and weather (15%) are expected to have greater negative impacts than in the previous quarter. Some other factors indicated which could have a possible negative impact on the accommodation industry during the next quarter, include municipal tariffs and increased fuel costs.

**Other Business: Factors Negatively Affecting the Business Situation - Next Quarter**

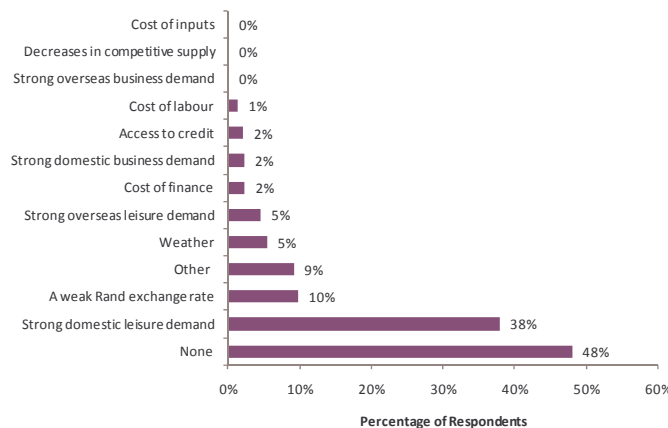


For other tourism businesses in contrast, the shortage of skilled staff is seen as a greater impact factor, while financial problems are seen as an increased impacting factor for the first quarter of 2011. Once again the decrease in foreign overseas leisure demands is the biggest impacting factor (72%), closely followed by a strong exchange rate (57%) and the decrease in the domestic leisure demand (35%). Weather, cost of finance and the cost of inputs were once again the least impacting factors expected for the first quarter of 2011.

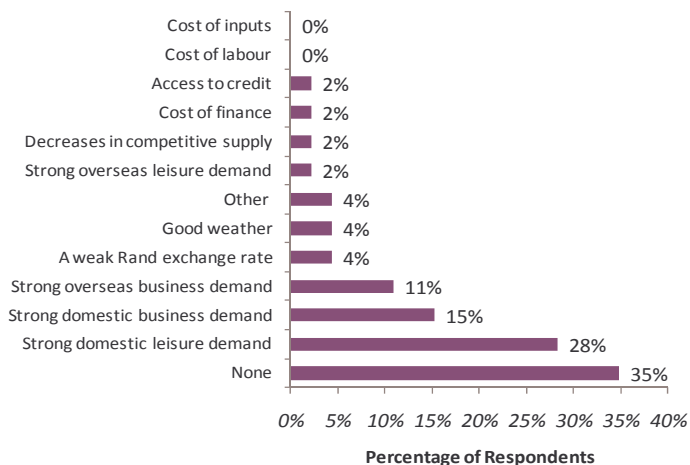
**Positive Factors - Last Quarter**

The major of the accommodation respondents (48%) felt that there were no real positive impacting factors during the last quarter of 2010, however, 38% did feel that the strong domestic leisure demand made a positive contribution to their performance levels. Access to credit, the cost of finance, strong domestic business demand and the cost of labour were some of the least contributing factors. One respondent felt that the additional rooms added to their product offering had increased business performance while another felt they needed to add more capacity as they were constantly over booked.

**Accommodation Business: Factors Positively Affecting the Business Situation - Last Quarter**



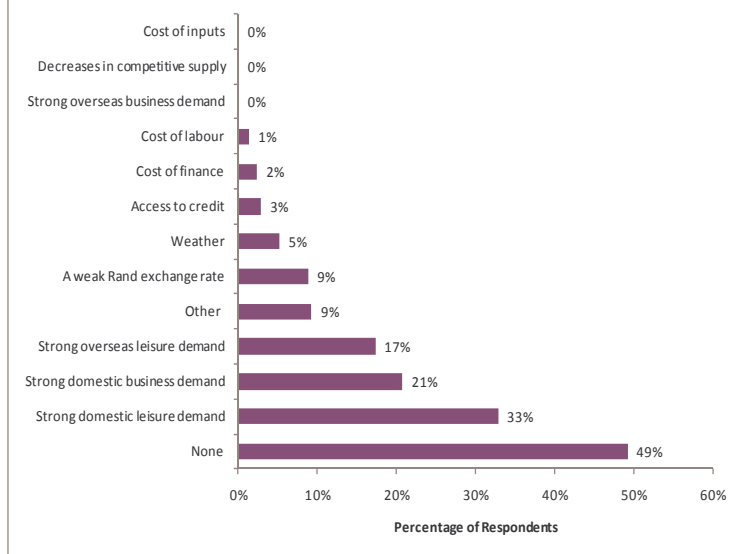
**Other Business: Factors Positively Affecting the Business Situation - Last Quarter**



The strong domestic leisure and business demand (28% and 15%), strong foreign business demand (11%) and good weather (4%) all impacted positively on the other tourism operator's performance during the last quarter of 2010. However, the majority of the respondents (35%) felt that no specific factor had a real positive impact on their business operations.

One respondent felt that their targeted PR and advertising campaign contributed positively to their business performance during the last quarter.

### Accommodation Business: Factors Positively Affecting the Business Situation - Next Quarter

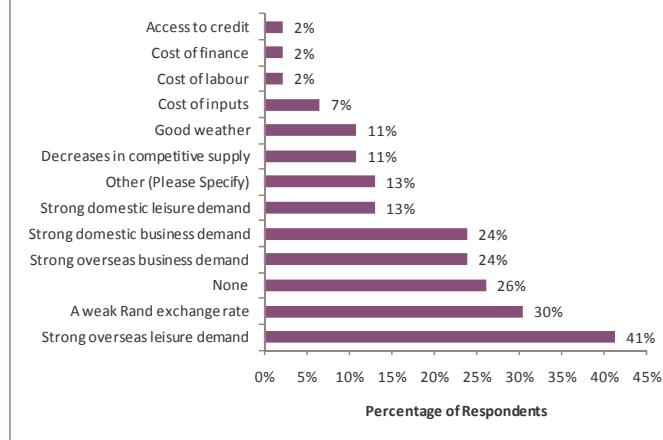


### Positive Factors – Next Quarter

For the first quarter of 2011, the majority of the accommodation respondents (49%) did not expect any specific factor to positively impact on their business performance.

However, some of the respondents are expecting that strong domestic leisure and business demand (33% and 21%) will have a significantly positive effect on their business performance levels, while 17% of the respondents expect the strong foreign leisure market to also have positive impacts, so much so that one respondent indicated that he had to increase his product offerings within the next quarter to be able to accommodate this demand. Noteworthy is that none of the respondents expect strong foreign business demand to have a positive impact.

### Other Business: Factors Positively Affecting the Business Situation - Next Quarter



Of the other tourism businesses, 41% expect strong demand in the foreign leisure and business markets, while 30% expect a strong domestic leisure and business market. A weak exchange rate (30%), a decrease in competitive supply (11%) and good weather (11%) were also considered pertinent impacting factors. Noteworthy is that 26% of the respondents felt that no specific factor will have a positive impact on their business during the first quarter of 2011.

## General Business Indicators

The Quarterly RMB BER Business confidence index for Q2 2010 saw a decline from 43 in the first quarter to 36 in the second quarter and an improvement to 47 in the third quarter, then dropped again to 44 in the 4<sup>th</sup> quarter. As 50 indicates neutral levels of confidence, the index is in negative territory, however its lowest point in the recent recessionary cycle was 23 in Q4 2009, so there was an extremely strong surge in Q1 2010, and the Q2 2010 result is seen as a probable over correction of confidence to lower levels. Quarter 3 therefore indicates improved confidence, however this declined somewhat in the fourth quarter. By contrast the FNB TBCSA Tourism Business Index indicates weaker business performance for August, September and October than the prior quarter, and a slight up-tick after this. Currently the general and tourism business outlook is somewhat similar, with tourism at 89,1 below 100, compared to 44 below 50 for the BER. The RMB BER is a business tendency survey based on OECD methodology as is the FNB TBCSA TBI.

The SACCI Business Confidence index is a composite indicator, as oppose to a tendency survey, but it is another regular and timeous indicator of economic activity. The index is based on the average economic activity for 2005 being a base of 100. Given that the index rose above 100 in 2006 and the early part of 2007, the index now being significantly below 100 indicates generally low levels of business confidence. The index average for 2009 was 82,8, the lowest it has been since 1997. The August to December levels are higher than the year to date and than 2009, indicating that general businesses felt an uptick in the last two quarters in contrast to the Tourism industry which experienced low and initially severely declining levels of performance in the August to December period.

<b>May</b>	<b>June</b>	<b>July</b>
82,0	84,8	84,3
<b>August</b>	<b>September</b>	<b>October</b>
87,6	87,8	85,9
<b>November</b>	<b>December</b>	
87,0	87,6	