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TOURISM: ONCE-OFF BOOM OR LIFT-OFF?

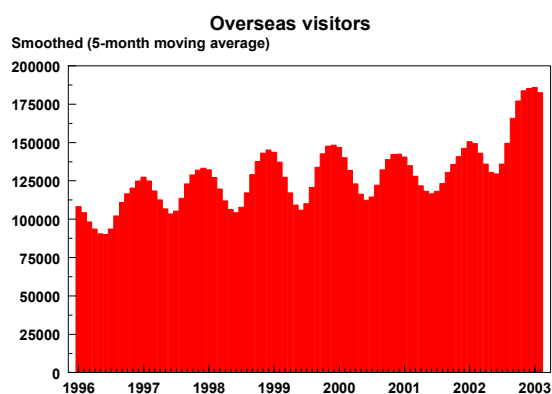
The local tourism industry was one of the success stories of 2002. The number of overseas visitors rose by an impressive 20% in 2002, making South Africa the fastest growing tourist destination in the world. This article takes a closer look at the performance of the tourism sector, focusing on the main drivers behind the unprecedented surge in foreign arrivals, the economic benefits resulting from this and the route to ensuring continued growth in this sector.

Recent performance

The local tourism industry experienced remarkably strong growth under difficult circumstances in 2002. Total foreign arrivals rose by 10,9% in 2002 after easing marginally during the previous two years. African countries dominated travel to South Africa, accounting for around 69% of all visitors, with 91% of African visitors coming from neighbouring countries alone. Difficult economic conditions in many neighbouring countries contained travel to South Africa in 2000 and 2001, but the number of visitors increased by 6,4% in 2002. While the recovery in arrivals from neighbouring and other African countries is encouraging, the economic benefits for South Africa are limited as many of these visitors undertake one-day trips to buy essential supplies while others are either migrant workers or traders that do not use formal accommodation.

The growth in the local tourism industry therefore mainly comes from overseas visitors that account for the remaining 30% of foreign arrivals to South Africa. The bulk of overseas visitors come to South Africa for holiday purposes and they generally have more spending power than most arrivals from neighbouring and other African countries, thereby making a stronger contribution to the local economy. This article will focus exclusively on trends in overseas visitors because of their economic significance. Overseas interest in South Africa as a holiday destination increased sharply in 2002 as the number of visitors rose by an impressive 20% to 1,8 million people. This followed a relatively moderate easing of 1,5% in 2001 in line with the slump in international tourism on the back of weak global growth and the confidence crisis created by the September 11 terrorist attacks in the US. The

momentum gained in 2002 continued in early 2003, with the hosting of the ICC Cricket World Cup pushing the number of overseas visitors up by a further 16,8% in the first two months of this year compared with the same period in the previous year.



Europe remained South Africa's largest source market, accounting for 66,8% of all overseas visitors in 2002. Europe was also the main driver of the growth experienced since the start of last year, with the number of visitors from this continent rising by 23,5% in 2002 and a further 17,1% y-o-y in the first two months of this year. Within Europe, the United Kingdom is South Africa's main market, accounting for 35,3% of all European visitors in 2002 and 24,2% of all overseas visitors. Aggressive marketing of South Africa as an affordable year-round destination by SA Tourism paid dividends, pushing the number of British visitors up by a strong 23,4% in 2002 and 18,4% y-o-y in early 2003, substantially up from an increase of only 1,6% in 2001. Germany is the second-largest source market, comprising 19,9% of all European visitors, followed by France and the Netherlands, who both contributed around 9% to total European visitors in 2002. Among these three countries, France showed the strongest growth, with the number of visitors having increased by an impressive 34% in 2002 and 38% y-o-y in early 2003. The number of visitors from Germany and the Netherlands rose by 22,2% and 14,4% respectively in 2002, but results were mixed in the early part of this year. While holiday travel from Germany slowed noticeably, the flow of visitors from the Netherlands was robust.

North America is South Africa's second-largest market, accounting for approximately 12% of all

overseas visitors in 2002. The US dominated travel from North America, contributing 10% to total overseas visitors. The number of arrivals from the US improved, albeit moderately, as the uncertainty created by the September 11 terrorist attacks gradually eased. The unexpected recovery in the US market was complemented by robust growth in tourism from Canada, where arrivals increased by a strong 22,2% in 2002 and a further 20% y-o-y in the first two months of 2003. Asia is the third-largest source market, accounting for around 10% of total overseas arrivals. Arrivals from Asia rose by almost 22% in 2002 and a strong 21,4% y-o-y in the first two months of this year, boosted mainly by an influx of visitors from India as marketing efforts created some interest during 2002, while the hosting of the Cricket World Cup added further momentum in early 2003. Arrivals from other countries in Asia also showed reasonable growth in 2002, but the number of visitors from Hong Kong and Taiwan has declined sharply in early 2003 as the impact of the deadly Severe Acute Respiratory Syndrome (SARS) virus limited travelling to and from the region.

Growth in foreign arrivals (% increase over previous year)			
	2001	2002	2003 Jan-Feb
Foreign arrivals	-1,5	10,9	7,8
Africa	-2,4	7,7	4,0
Neighbouring countries	-3,6	6,4	3,9
Overseas	-1,3	20,0	16,8
Middle East	1,1	14,5	-7,3
Israel	9,2	8,9	-26,4
Asia	-3,5	21,9	21,4
Hong Kong	-11,2	17,5	-27,1
India	3,3	22,4	86,6
Japan	6,1	6,9	1,7
Malaysia	-0,2	32,4	18,8
Singapore	-11,6	7,4	13,1
North America	-2,7	8,6	13,6
Canada	-1,2	22,2	20,1
USA	-2,9	6,4	12,1
Central and South America	-6,3	-11,5	17,5
Argentina	-8,5	-63,4	39,2
Brazil	-1,5	6,1	4,0
Europe	-1,7	23,5	17,1
France	-7,6	34,0	38,3
Italy	-3,6	28,7	13,5
Netherlands	5,0	14,4	17,4
United Kingdom	1,6	23,4	18,4
Germany	-3,5	22,2	8,8
Australasia	4,3	17,4	19,1
Australia	8,0	14,4	21,0
New Zealand	5,6	10,5	22,5
Unspecified	25,9	11,4	7,1
Indian Ocean Islands	4,9	44,3	19,3

The remainder of overseas visitors to South Africa are from Australia, New Zealand, the Middle East, Central and South America as well as the Indian Ocean Islands. Together, these countries accounted for 9,8% of overseas visitors in 2002, with Australia leading the way with a contribution of approximately 4% to the total. Arrivals from most of these countries rose strongly in 2002, with the exception of those from Central and South America, where the economic crisis in Argentina limited expenditure on travel significantly. Trends in arrivals since the start of this year have been mixed. While the Cricket World Cup resulted in a sharp escalation in visitors from Australia and New Zealand, the ongoing

conflict in the Middle East and the buildup to the war in Iraq pushed arrivals from the Middle East down sharply.

Economic impact

The boom in international tourism contributed to the local economy's unexpected resilience in 2002, but unfortunately the impact is difficult to isolate and to quantify due to a lack of accurate historical data. Domestic spending was undoubtedly helped in 2002, offering some explanation for the buoyancy in retail sales despite surging domestic inflation and higher local interest rates. Recent spending statistics released by SA Tourism provide a rough indication of the impact of tourism on domestic spending and economic growth in general. SA Tourism's spending figures are, however, only available from the first quarter of 2002 and show that foreign 'air' tourists alone spent around R27,9 billion in South Africa during the first three quarters of 2002. Although these statistics provide a very narrow and limited indication of the economic effects of tourism, the expenditure of foreign 'air' tourist in South Africa is still significant, amounting to around 3,5% of gdp during the first three quarters of last year. The British and the Americans were the biggest spenders, followed by the Germans and the French. While there are no figures on the breakdown of spending by country for the first quarter of 2002, the figures for the second and third quarters show that the British spent over R2 billion in South Africa over the two quarters, while the Americans spent around R1,7 billion over the same period. The figures for the USA are however distorted by travel expenses, in that a far greater percentage of US tourist spending was allocated to airline tickets alone, given the distance travelled compared with European visitors.

Regional breakdown of tourist spending in South Africa				
	Q2'02		Q3'02	
	R'm	% of total	R'm	% of total
Europe	2 156,6	46,9	3 516,8	28,2
UK	886,0	19,3	1211,3	9,7
Germany	182,7	4,0	676,7	5,4
France	409,2	8,9	285,4	2,3
Netherlands	117,5	2,6	363,0	2,9
Italy	25,7	0,6	198,4	1,6
Sweden	80,4	1,7	53,9	0,4
Other	455,1	9,9	728,2	5,8
Americas	952,3	20,7	1 053,7	8,4
USA	771,8	16,8	793,2	6,4
Canada	88,5	1,9	109,9	0,9
Brazil	37,3	0,8	96,3	0,8
Other	54,6	1,2	54,3	0,4
Asia and Australasia	613,2	13,3	928,7	7,4
China and Hong Kong	81,3	1,8	96,1	0,8
India	125,1	2,7	130,7	1,0
Japan	17,2	0,4	88,5	0,7
Australia	0,0	0,0	253,3	2,0
Other	389,6	8,5	360,3	2,9
Africa & the Middle East	881,6	19,2	6 706,1	53,7
TOTAL	4 600,0	100,0	12 480,9	100,0

A narrower indication of the benefits of tourism can be seen from developments in specific sectors of the economy, particularly within the hotel industry, where the number of roomnights sold surged by almost 10% in 2002 and room occupancy averaged 59% from 53,6% in 2001 and 52,2% in 2000. While all

segments of the hotel industry showed significant improvements in occupancy and earnings, the high-margin five-star hotels benefited most from the sharp increase in the number of overseas visitors. Five-star hotels were initially helped by the rand's sharp fall in late 2001, which made this grade of accommodation very affordable to foreigners. This, coupled with the hosting of the World Summit on Sustainable Development later in 2002 and the Cricket World Cup in early 2003, pushed real income of five-star hotels up by an impressive 23% in 2002 and a further 14% in the first two months of 2003. Other statistics also confirm this strong performance as the number of roomnights sold rose by 15,7%, while room occupancy averaged almost 61%, up from 53,2% in 2001. The ungraded segment of the market also experienced exceptionally strong growth, with real income rising by 12,9% in 2002 after falling by 2,4% in 2001. This was the result of an increase of 13,1% in the number of roomnights sold, with room occupancy averaging a high 61% in 2002 and 62% in the first two months of 2003 from 55,3% in 2001.

Length of stay and provincial distribution of tourists			
	Q1'02	Q2'02	Q3'02
Average nights spend in SA	11,0	16,0	9
Average number of provinces visited	1,5	2,1	2,0
Bednights sold per province (% of total):			
Gauteng	32,6	29,0	34,6
Western Cape	23,6	31,0	15,4
KwaZulu-Natal	6,8	8,0	13,7
Eastern Cape	11,9	15,0	12,8
Northern Cape	7,3	8,0	10,0
Mpumalanga	2,8	3,0	5,0
Northern Cape	4,8	3,0	4,2
North West	4,6	1,0	2,6
Free State	5,6	2,0	1,8

Apart from the impact on domestic spending and economic growth, tourism also has the potential to create substantial employment, and SA Tourism estimates that every eight tourists creates one permanent job. Unfortunately, there is little evidence that the boom in tourism in 2002 resulted in any major employment drive. This may be partly due to the existence of some excess capacity in the broader tourism and hotel sector following relatively large expansion projects and increased job creation over the period 1994 to 1996. However, a continuing boom in this sector will erode this excess capacity and provide the best opportunity for growth in the short to medium term.

Major challenges

The biggest challenge facing local authorities and the private sector is maintaining the momentum generated in 2002 by building on South Africa's profile as a tourist destination and by providing the necessary infrastructure for expansion. The tourism boom in 2002 was partly the result of more effective marketing of the country abroad, but was also due to economic and political events globally. One of the factors that worked in South Africa's favour was that the rand's dramatic slide in late 2001 coincided with the slowdown in the world economy, making South Africa an extremely affordable destination at a time

when most foreigners were more cost-conscious than in the past. The 2001 terrorist attacks in the US, and more recently the war in Iraq, were also instrumental in altering perceptions of what constitutes a safe country. This led to South Africa being viewed as a relatively safe destination despite high local crime levels and difficulties in neighbouring countries.

While this unique set of circumstances has given South Africa a good foundation to build on, perceptions of safety could change, as crime in South Africa remains high. Dealing with crime and ensuring the safety of tourists will be one of the keys to growing the local tourism industry over the medium term. Apart from the risks posed by crime, South Africa also needs to increase return rates and improve the geographic spread of tourism. SA Tourism's research shows that the majority of visitors to South Africa remain first-time visitors and that their stay in South Africa is relatively short in duration. A further problem is that the benefits of tourism are not evenly spread across the country, with the bulk of foreign tourists flocking to either the Western Cape, mainly for the scenery and leisure activities, or Gauteng, motivated by the shopping experience and business activities. Foreign visitors to most of the other provinces are limited and erratic despite excellent potential.

Another concern is the general lack of capacity in the travel sector. SA Tourism has found that growth in the local industry could have been much more impressive were it not for a chronic shortage of airline seats from our main markets in the UK, continental Europe and the USA. SA Tourism estimates a shortage of around 5 000 seats in the peak season from most of the major regions, while capacity in the off-season is also insufficient to meet the demand. While seasonality has limited capacity creation within the local airline industry, a lack of competition has contributed and may also be a factor in the high cost of travel to South Africa, particularly from certain key destinations, notably Japan and the USA.

A study undertaken by the Monitor Group for SA Tourism in January 2002 shows that the cost of an airticket from Tokyo, London, New York and Frankfurt to South Africa remains prohibitive and compares badly with the cost of flying from these four centres to most Asian countries and key South American countries. While the purchase of the new airbuses by SA Airways should help to increase volume, the long-term solution remains the introduction of more competition. The government has recently decided to review current aviation policy in a bid to establish a more open-sky framework and to align the tourism growth strategy with that of SA Airways and the Airports Company of SA.

The tourism industry also needs to reduce the highly seasonal pattern of demand, which has an adverse effect on earnings in the industry. While some progress has been made to address this in 2002, much more needs to be done to attract more tourists in the off-season, which generally stretches from March to September. This deeply entrenched seasonal pattern has created difficulties for the

broader hotel and tourism sector as well as the airline industry. Seasonality has made it difficult to manage yields over the low season, impacting negatively on earnings growth and limiting capacity expansion in the industry.

Reducing seasonality has become the priority or key objective of SA Tourism's growth strategy in recent years. In March 2002 SA Tourism put together a three-month 'Opportunity SA' package for only £499 for the UK market. This package proved successful, resulting in increased bookings from the UK in March and April and even as far ahead as September. All the packages were sold within the first few weeks. Marketing in Germany, France and Italy has also yielded increased arrivals during the off-season. Last year these efforts helped to extend the peak season from October to May. SA Tourism has taken this deal-orientated strategy further, with most of the packages focusing on affordability, while the marketing promotes South Africa as country where good weather conditions prevail all year round.

Outlook for tourism

The short-term outlook for tourism is uncertain. While last year's momentum, SA Tourism's aggressive marketing of affordable packages and South Africa's increased profile as tourist destination should ensure reasonable growth in 2003, there have also been a number of worrying developments that may hamper growth. The instability in the Middle East has limited travel worldwide, while the outbreak of the SARS virus in Asia has brought in- and out-bound tourism from this region to a near halt. In addition, the world economy is looking increasingly fragile due to major structural difficulties in the US, Europe and Japan. On the local front the rand's strong pullback throughout 2002 and in early 2003 threatens to undermine the country's status as an affordable good-value destination.

The longer-term potential of the industry is, however, not in question. The country's tourism resources are underutilised and the industry could expand rapidly over the next few years. It should be prioritised because of its attractive features. Tourism generates greater employment than many other industries at relatively low skill levels, thereby spreading the benefits more evenly. It also does not require much in the way of import-intensive investment. However, considerable effort, planning and alignment of priorities will be required if the country is to repeat the successes seen in comparable countries.

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