Extended Essay

To what extent has the recent fall in the exchange rate of the Rand, affected the tourism industry of Cape Town, South Africa?

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Subject: Economics

Topic: The consequences of the depreciation of the South African Rand.

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1. Introduction

Cape Town is the legislative capital of South Africa and is known as the "Mother City" by the locals. It is globally known because it is home to Robben Island, the prison in which the late Nelson Mandela was incarcerated as well as its beautiful beaches and the iconic Table Mountain. The New York Times ranked it 1st in their 52 places to visit in 2014. [1] Every year, thousands of tourists go there for holiday. The tourism industry of Cape Town is a billion Rand industry and an important sector of the city's as well as the country's economy. Tourism is a social, cultural and economic phenomenon that entails the movement of people to countries or places outside their usual environments for personal or business purposes. [2]

The exchange rate of the Rand has been gradually falling in 2013 however; recently it has depreciated to its lowest in 5 years. [3] The Rand went past the R11/$1 mark which is due to on-going strikes in the mining industry. Exchange rate is the value of one currency in terms of another. If the exchange rate changes so that one currency changes so it buys more of another currency, we call it appreciation and if it changes to buy less we call this depreciation in the currency. [4]

I have a family member who lives in Spain and comes to visit South Africa annually. In 2013, she came to visit twice and spent more money than she usually does when she is in South Africa. When I asked her why, she said it is because of the fall in the exchange rate of the Rand to the Euro, which made her have more money to spend here. Hence my research question is, ***"To what extent has the recent fall in the exchange rate of the Rand affected the tourism industry in Cape Town, South Africa?"***

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[1] http://www.nytimes.com/interactive/2014/01/10/travel/2014-places-to-go.html?_r=0 accessed on 01-02-2014

[2] Appendix 3: Grant Thornton and City of Cape Town, Economic Value of Tourism Cape Town.

[3] http://www.bloomberg.com/news/2014-01-14/rand-falls-to-5-year-low-as-south-african-platinum-strike-looms.html accessed 02-02-2014

[4] Mankiw, N. Gregory. *Principles of Economics 5th edition*: South-Western Cengage Learning 2008. Pg 703

2. Methodology

For the investigation, primary research had to be conducted through interviews with the director of tourism of Cape Town, Nombulelo Mkefa as well as Racquel Barnard who works in the tourism department of Cape Town. An interview with Kholadi Tlabela, who works at SA Tourism, was conducted to get a view from outside the Cape Town and more on the country as a whole. The tourism department of Cape Town also provided research that was conducted by the City of Cape Town in partnership with Grant Thornton. The information was obtained to analyse how the tourism industry has been affected over the previous year and also take a look at the difference in the exchange rates over the years to see if it there is any correlation between the two.

Secondary research was conducted through articles on why the exchange rate of the Rand is falling as well as the implications of this. This was done in order to ascertain the determinants of exchange rates obtained from economic textbooks in a real life situation. Secondary research was generally conducted as evidential support for most of the evidence that was discovered through primary research. Various Economic textbooks were also used to verify economic theory.

In order to address the research question, it is important firstly to understand the reasons for changes in the value of a currency to understand the economic context. Following this, there will be an in-depth look at the tourism industry.

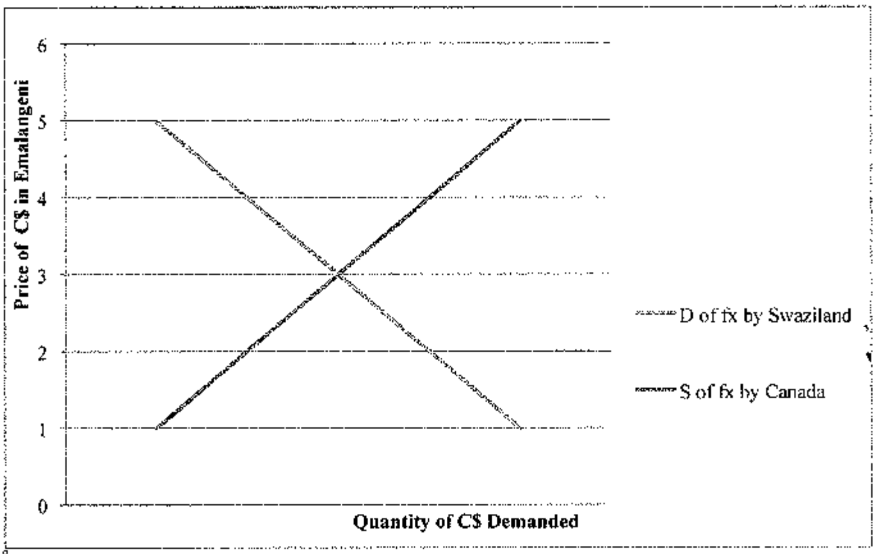
3

3. The theory of exchange rate and purchasing power parity

3.1 Floating Exchange Rate

The floating exchange rate system entails the exchange rate being solely determined by supply and demand in a market exchange rate system. [5] Demand for goods, services and investments priced in that currency helps determine the exchange rate. If someone wants to buy Canadian bonds or Canadian maple syrup, then they will need Canadian dollars to do so. If total expenditures, by non-Canadians, on these items rise, the demand for the Canadian dollar will rise. [6] Theory suggests that a floating exchange rate should adjust itself to keep the current account balanced.

Figure 1



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[5] Glanville, Allan. Economics from *A Global Perspective 2nd Edition Oxford*: Glanville Books Ltd 2003 pg 440

[6] http://economics.about.com/cs/money/a/purchasingpower.htm accessed 2014-02-17

[7] Blink, Jocelyn & Dorton, Ian. *IB Diploma Programme Economics Course Companion Oxford 2nd edition* Oxford University Press 2012 pg 291

[8] Glanville, Allan. Economics from A Global Perspective 2nd Edition Oxford: Glanville Books Ltd 2003 441

3.2 Purchasing Power Parity

In economics, there is a theory called purchasing power parity that entails that one currency should be able to purchase the same amount of goods in another country. [9] This gives us the long run effect of exchange rates. This theory came about because of the assumption that if one good was cheaper in one country than another, then an entrepreneur would profit from buying the goods in a cheaper country and selling them where they are more expensive. For example if coffee was significantly cheaper in Swaziland than in Canada, then a Canadian may benefit from importing coffee from Swaziland and selling it in Canada at a cheaper price compared to competitors. Hence came about the theory of purchasing power parity.

3.3 Factors Influencing Exchange Rates

A change in relative economic prospects can lead to a change in the exchange rate. If the conditions of a country change, it may cause foreign investors to invest more of their money in that country or make them pull out their investments in that country. If investors raise their expectations on a high ROI (return on investment), the exchange rate will go up. [10] In addition, an increase in the income of the country can depreciate the exchange rate as a higher income increases the supply of currency.
A change in relative interest rates will affect the exchange rate as investors look for the highest return on investment available. If interest rates rise in a country
Then the savings rates in that country become more attractive and this lures investors in. [11]
The weak Rand negatively affects consumers, who depend heavily on imported consumable goods, as it raises the relative price of these goods. This may in turn lead to upward pressure on inflation.
At the same time however, the depreciation of the Rand improves the price competitiveness of South African exports, and can lead to increased production in export industries. In this respect, the strong growth performance of the manufacturing

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[9] http://economics.about.com/cs/money/a/purchasingpower.htm accessed 2014-02-17
[10] Glanville, Allan. Economics from A Global Perspective 2nd Edition Oxford: Glanville Books Ltd 2003 pg 440
[11] Glanville, Allan. Economics from A Global Perspective 2nd Edition Oxford: Glanville Books Ltd 2003 pg 444

sector in South Africa in the 2nd quarter may be linked to the weaker Rand. [12]

Speculation by professional speculators in currency, and traders analyse the favourable times for investors to invest according to the exchange rate. They analyse the current affairs of a country to see if there will be a change in the exchange rate. Their predictions are not always right but investors heavily believe in their ability to accurately choose the option with the highest ROI possible.
Governments may also intervene through using foreign reserves. By using foreign reserves, governments may use foreign currency to purchase its own currency that will then increase the quantity demanded for their currency and hence their exchange rate will be stronger. [13] If they wish to lower their exchange rate, they could do the opposite. China does this in order to keep its exchange rate low

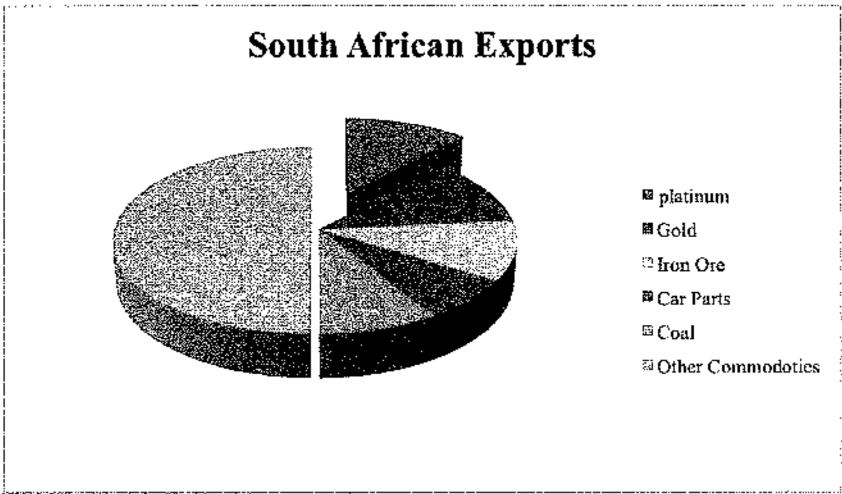
[12] https://www.capetown.gov.za/en/ehd/Documents/Cape%20Town%20Quarterly%20Report%20Q2%202013%20Final.pdf
[13] Blink, Jocelyn & Dorton, Ian. *IB Diploma Programme Economics Course Companion Oxford 2nd edition* Oxford University Press 2012 pg 289

4. Factors that have depreciated the exchange rate of the Rand

4.1Platinum mine strike

Platinum accounts for about 8% of South Africa's export earnings, with mining commodities making up more than 50% of the country's exports, according to government data. South Africa is the world's biggest producer of platinum. [14]

Figure 2



[15]

Over the past few months, there has been a widespread wage strike by miners. This is the biggest mine strike in South Africa since the Marikana in 2012, with over 70 000 miners on strike. [16] South Africa produces 80% of the world's platinum and the strikes mean that there is less output being sold. The supply of platinum has decreased significantly and thus its price has increased. Although this should increase the exchange rate of the Rand as the quantity demanded of the Rand will be required to purchase platinum, it has depreciated because many foreign investors have pulled out of the country because of speculations on the future due to disorganized labour. Investec's chief economist, Annabel Bishop, feels the more persistent strike action proves to be, the greater the negative impact on foreign ownership of South African

[14] http://www.bloomberg.com/news/2014-01-14/rand-falls-to-5-year-low-as-south-african-platinum-strike-looms.html accessed 02-02-2014

[15] http://www.tradingeconomics.com/south-africa/exports accessed 22-02-2014

[16] http://therealnews.com/t2/index.php?option=com_content&task=view&id=31&Itemid=74&jumival=11411 accessed 10-02-2014

equities and hence the more protracted rand weakness. [17] Other economists believe that the mine strikes alone are not the reason for the weakening exchange rate.

4.2. South Africa's widening trade deficit

Another local factor is that South Africa's large and widening trade deficit is keeping pressure on the Rand. This is consistent with a widening in the overall current account deficit to around 6.5% of GDP. [18] Renewed concerns about the potential impact of a tapering of the US Fed's unconventional monetary policy stimulus have made investors feel less willing to take risks. [19] This shows that there are some global factors at play as well.

The government may intervene by increasing interest rates. By increasing the interest rate, the government makes it more attractive for investors to invest in South Africa and this is exactly what they have done. The interest rate of South Africa was increased from 5% to 5.5%. [20] This was done in hope to stabilize the free falling exchange rate of the Rand.

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17 http://www.citypress.co.za/business/strikes-hold-economy-ransom/ accessed 16-02-2014

18 http://www.moneyweb.co.za/moneyweb-soapbox/what-is-driving-the-weakness-of-the-south-african- accessed 12-02-2014

19 http://www.enca.com/south-africa-money/rand-crashes-four-year-low accessed 12-02-2014

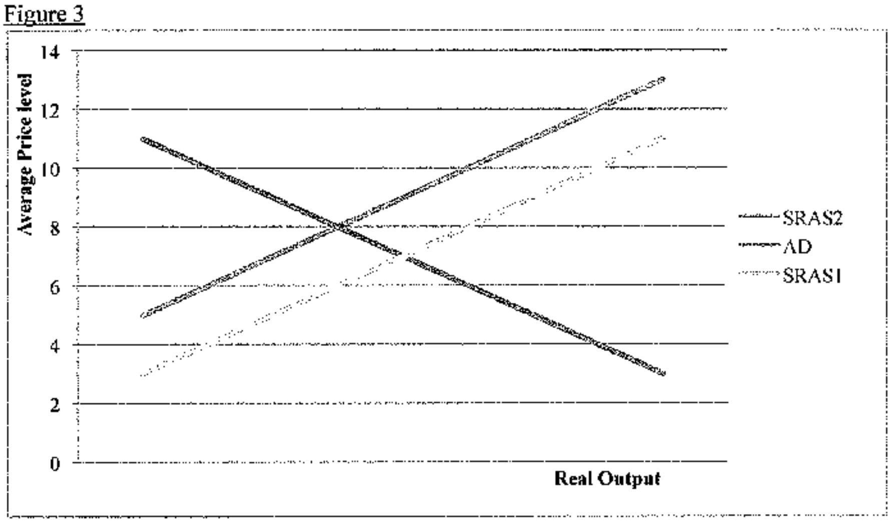
20 www.cnbc.com/id/101372627 accessed on 10-02-2014

5. Impact on Inflation

5.1. Inflation and exchange rates

Inflation is a sustained upward movement in the average price levels. [21] If there is depreciation in the exchange rate, this depreciation should cause inflation to increase. The price of imported goods will go up because they are more expensive to buy from abroad. There will be less imports purchased due to the increased costs of importing. This causes a fall in the short-run aggregate supply from SRAS1 to SRAS2. This is defined as import-push inflation. [22]

Figure 3



There will be less incentive to cut costs. Manufacturers who export see an improvement in competitiveness without making any effort. Some argue this may reduce their incentive to cut costs, and therefore, we get higher inflation over the long run. [23]

Overall, for the second quarter of 2013, the inflation rate experienced a slight

[21] Glanville, Allan. Economics from A Global Perspective 2nd Edition Oxford: Glanville Books Ltd 2003 pg 286
[22] Blink, Jocelyn & Dorton, Ian. *IB Diploma Programme Economics Course Companion Oxford 2nd edition* Oxford University Press 2012 pg 230
[23] http://www.economicshelp.org/blog/1605/economics/higher-inflation-and-exchange-rates// accessed 22-02-2014

decrease when compared to the first quarter of 2013. The headline Consumer Price Index (CPI) annual rate for June 2013 was 5.5%, 0.1 of a percentage point lower than the previous annual rate in May 2013 (5.6%). The Quarterly Economic Report 2013 from the South African Reserve Bank stated that this decline is largely due to a decline in petrol price inflation over the period as well as the weakening exchange rate. [24]

Table 1

Quintiles	**Level**	**Monthly Expenditure**	**Inflation Rate at July 2013**
	Average		5.5%
1	Very Low	R0-R1.213	6.5%
2	Low	R1.214-R1.939	6.1%
3	Middle	R1.940-R3.062	5.8%
4	High	R3.063-R6.596	5.9%
5	Very High	R6.597 and more	5.5%

[25]

The table above indicates how different expenditure groups are affected by inflation. There is a negative relationship between the rate of inflation and monthly expenditure. As expenditure increase, the relative impact of inflation decreases. The population with the lowest level of monthly expenditure was subject to an inflation rate of 6.5% in June 2013, while the population with the highest monthly expenditure was subject to an inflation rate of 5.5%. This negative relationship is mainly due to the consumer basket of the lowest expenditure groups being dominated by spending on food and transport, both of which have been major contributors towards the growth in CPI (Consumer Price Index) in the last few years. [26]

The impact on tourism is that tourists would now have to spend more on goods as they are being sold at a higher price. Although tourists might not feel the pinch of the inflation, local firms will. For tourists, the goods they purchase here are relatively price inelastic since the tourists feel as though they may never get a chance to

[24] https://www.capetown.gov.za/en/ehd/Documents/Cape%20Town%20Quarterly%20Report%20Q2%202013%20Final.pdf accessed 22-02-2014
[25] Statistics South Africa
[26] https://www.capetown.gov.za/en/ehd/Documents/Cape%20Town%20Quarterly%20Report%20Q2%202013%20Final.pdf accessed 22-02-2014

purchase them again. The tourism industry has many small firms such as artists and handcrafters that sell their products to tourists. Inflation would affect them negatively as they have to pay more for their raw materials and on transport. They would have to increase their prices by a greater rate than the inflation rate because they need a greater profit to purchase everyday goods.

Overall, the decreasing inflation rate in the 2nd quarter was positive for consumers, even though it is reflective of a struggling South African economy. The poor economic growth for the first quarter of 2013 (0.9%) and moderate growth for the second quarter (3%), as well as the deprecation of the Rand restrained consumer and producer spending, and therefore limited inflationary pressures. [27] However, this was not enough to keep interest rates unchanged. Later on in 2013, the South African Revenue bank had to increase the interest rate.

[27] https://www.capetown.gov.za/en/ehd/Documents/Cape%20Town%20Quarterly%20Report%20Q2%202013%20Final.pdf accessed 22-02-2014

6. Impact on the tourism industry:

6.1 Performance of the tourism industry of Cape Town

The tourism industry as a destination is a multi-stakeholder sector. [28] Industries such as transport, accommodation, food and beverages, entertainment, etc are all impacted by tourism. The more tourists that go to Cape Town, the more revenue gained in each of those sectors. In 2012 the economic value of the Cape Town tourism industry was R14,6bn. [29] In 2013, tourists alone spent an estimated R12.7bn (excluding December).

Table 2.1: Foreign arrivals and tourist expenditure

	Source	2009	2010	2011	2012
Foreign Tourist Expenditure in South Africa					
Total foreign tourist expenditure in South Africa (R bn)	SA Tourism	67.0	76.6	74.0	77.8
Share of foreign tourist expenditure in the Western Cape	SA Tourism	24.8%	28.4%	24.6%	23.2%
Total foreign tourist expenditure in the Western Cape (R bn)	SA Tourism	16.6	21.7	18.2	18.2
Share of foreign tourist expenditure in Cape town	Estimate	68%	67%	71%	70%
Total foreign tourist expenditure in Cape Town (R bn)	**Calculation**	**11.3**	**14.5**	**12.9**	**12.7**
Total Domestic Tourist Expenditure in South Africa					
Total expenditure by domestic tourists in South Africa (R bn)	SA Tourism	22.4	21.1	20.3	23.8
Share of total domestic tourist expenditure in the Western Cape	Calculation	11.6%	15.6%	19.2%	16.4%
Total expenditure by domestic tourists in the Western Cape (R Bn)	SA Tourism	2.6	3.3	3.9	3.9
Share of domestic tourist expenditure in Cape Town	Estimate	44%	47%	49%	48%
Total spend by domestic tourists in Cape Town (R bn)	**Calculation**	**1.1**	**1.5**	**1.9**	**1.9**
Economic Value of Tourism based on National Data					
Total foreighn tourist expenditure in Cape Town (R bn)	Calculation	11.3	14.5	12.9	12.7
Total domestic tourists expenditure in Cape Town (R bn)	Calculation	1.1	1.5	1.9	1.9
Total economic value of tourism in Cape Town (R bn)	**Calculation**	**12.4**	**16.0**	**14.7**	**14.6**

[30]

[28] Appendix 1: interview with Tourism Director, Nombulelo Mkefa. 27-01-2014
[29] Appendix 3: Grant Thornton and City of Cape Town, Economic Value of Tourism Cape Town.
[30] Appendix 3: Grant Thornton and City of Cape Town, Economic Value of Tourism Cape Town.

Since tourists had more money to spend as the Rand was relatively low. We understand why in 2013, the City of Cape Town expected to make more money than in previous years. There are approximately 2700 business that are members of the City of Cape Town's tourism. [31] Hence, more money being spent in Cape Town went into the pockets of many households. Consumers thus had more income to spend and consumption increased which was positive for the GDP. [32]

Monthly comparisons of November 2013 and November 2012 show that there was a 14,5% increase in foreign arrivals. [33] This was during the tie where the free-fall of the currency of the Rand began.

Table 2.2: Foreign Arrivals and Domestic Trips

	Source	2009	2010	2011	2012
Foreign Arrivals					
Total foreign arrivals to South Africa	SA Tourism	7 011 865	8 073 552	8 339 354	9 188 368
Share of foreign arrivals to the Western Cape	SA Tourism	18.8%	18.6%	16.7%	14.9%
Number of foreign arrivals to the Western Cape	SA Tourism	1 316 795	1 504 698	1 391 228	1 398 894
Share of foreign arrivals to Cape Town	Estimate	93%	91%	97%	96%
Number of foreign arrivals to Cape Town	**Calculation**	**1 224 619**	**1 374 180**	**1 293 842**	**1 273 072**
Domestic Tourism					
Total number of domestic trips taken in South Africa	SA Tourism	30 300 000	29 700 000	26 400 000	25 300 000
Share of domestic trips taken to the Western Cape	Calculation	11.6%	9.1%	9.1%	10.2%
Number of domestic trips taken to the Western Cape	SA Tourism	3 500 000	2 700 000	2 400 000	2 589 362
Share of domestic trips taken to Cape Town	Estimate	44%	47%	49%	48%
Number of domestic trips taken to Cape Town	**Calculation**	**1 540 000**	**1 188 00**	**1 056 000**	**1 139 319**

[34]

[31] http://www.capetown.travel/content/page/tourism-industry1 accessed 22-02-2014
[32] https://www.capetown.gov.za/en/ehd/Documents/Cape%20Town%20Quarterly%20Report%20Q2%202013%20Final.pdf accessed 22-02-2014
[33] http://www.ctvnews.ca/business/south-africa-s-weak-rand-drawing-few-complaints-from-tourists-1.1646133 accessed 02-02-2014
[34] Appendix 3: Grant Thornton and City of Cape Town, Economic Value of Tourism Cape Town.

By observing the table, we can see that the amount of foreign visitor to Cape Town have been decreasing from 2012. We have to remind ourselves that in 2010, Cape Town was one of the host cities for the 2010 FIFA World Cup. The 2013 figures are still being calculated but the tourism department says things are looking good. The difference between 2012 and 2011 may be negative but it is not too significant that we should worry about it as it is only a 1.6% change in the amount of visitors.

In 2013, tourists also had more money to spend as the exchange rate was relatively weak, in comparison to the US dollar ($), British pound and the Euro. This was good for both domestic business and the economy.

Table 2.3: Foreign Arrivals and Bednights

	Source	**2009**	**2010**	**2011**	**2012**
Foreign Bednights					
Total number of bednights by foreign arrivals in SA	SA Tourism	55 802 589	66 852 503	66 153 429	66 134 864
Share of foreign bednights in the Western Cape	SA Tourism	28.1%	29.9%	25.6%	23.8%
Number of bednights by foreign arrivals in the Western Cape	SA Tourism	15 680 688	19 971 821	16 961 520	16 210 079
Share of foreign bednights in Cape Town	Estimate	68%	67%	71%	70%
Number of bednights by foreign arrivals in Cape Town	**Calculation**	**10 656 778**	**13 573 082**	**11 527 247**	**11 016 559**
Domestic Bednights					
Total number of domestic bednights in South Africa	SA Tourism	128 400 000	130 800 000	115 200 000	121 200 000
Share of domestic bednights on trips taken to the Western Cape	Calculation	12.0%	11.0%	11.0%	11.0%
Number of domestic bednights on trips taken to the Western Cape	SA Tourism	15 408 000	14 388 000	12 672 000	13 332 000
Share of domestic bednights in Cape Town	Estimate	44%	47%	49%	48%
Number of domestic bednights on trips to Cape Town	SA Tourism	**6 779 520**	**6 330 720**	**5 575 680**	**5 866 080**

[35]

The accommodation sector is a huge sector of the tourism industry. It is one of the key factors used when measuring the performance of the tourism industry. [36] In 2013, there were more visitors in Cape Town as accommodation prices were cheaper for foreign tourists due to the lower exchange rate.

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[35] Appendix 3: Grant Thornton and City of Cape Town, Economic Value of Tourism Cape Town

[36] Appendix 1 Interview with Nombulelo Mkefa, Tourism Director 27-01-2014

Table 2.4

Indicator	June 2013	Annual % change June	May 2013	% Change from May 2012 to May 2013
Single units available (000)- Average	124.6	0.9	124.4	0.7
Single unit nights sold (000)- Average	1 556.7	2.7	1 608.2	5.1
Occupancy Rate	41.6%	N/A	41.7	N/A
Average income per unit sold (Rand)	738.9	760.5	760.5	4.8
Income from Accommodation (R million)	1 150.2	1 233	1 223	10.1
Total income (R million)- Average	**2 494.5**	**9.0**	**2618.2**	**12.5**

[37]

Average income per stay unit sold increased by 5.1% in June 2013. This is lower than the inflation rate during the past year, which hovered around 6% and is indicative of the price sensitivity of guests keeping room rates in check. Increased income from accommodation of 7.9% in June 2013 reflects a mixture of higher pricing per unit and a greater number of stay units sold during the period. This income from accommodation can also be broken down by accommodation type. In this respect, increased income from accommodation in June 2013 was driven mainly by 'Hotels' contributing 4.1 percentage points and growing at a rate of 6.0%. The type of accommodation with the highest growth in income, however, was 'Other Accommodation' which grew its' income by 12.7% as compared to the same period in the previous year. Hotels had the highest occupancy rate of 46%. [38]

[37] https://www.capetown.gov.za/en/ehd/Documents/Cape%20Town%20Quarterly%20Report%20Q2%202013%20Final.pdf accessed 22-02-2014

[38] https://www.capetown.gov.za/en/ehd/Documents/Cape%20Town%20Quarterly%20Report%20Q2%202013%20Final.pdf accessed 22-02-2014

Table 2.5: Cape Town International Airport Arrivals

	Actual Figures December 2013	**Year-On-Year Growth** December 2013
Domestic Arrivals	323 514	1.52%
Regional Arrivals	6 564	-1.64%
International Arrivals	82 010	4.87%
Total Arrivals	**412 584**	**2.07%**

[39]

The amount of international arrivals in Cape Town for December 2013 increased by 4.87% in comparison to December 2012. More tourists coming in meant that firms in the tourism industry had the opportunity for more business. However, the fall in the exchange rate was not the only explanation for the boom in tourism. After the 2010 FIFA World Cup, the number of arrivals as well as bednights increased significantly. Cape Town has become a very popular tourist destination and the fall in the exchange rate of the Rand could have been a bonus for many foreign tourists.

[39] http://Cape_Town_Industry_Dashboard_December_2013_Updated_Cape_Point_Final.pdf accessed 22-02-2014

7. Impact on Unemployment in the tourism industry:

Table 3: Estimated number of Employees in the tourism industry of Cape Town 2012/13

Employment	Permanent	Temporary
Low level (Unskilled or semi-skilled)	19 113	12 256
Medium Level (Skilled & technically or academically qualified – supervisor, junior manager)	8 448	1 991
High Level (Experienced, professionally qualified, mid-senior managers)	7 024	675
Total	**34 584**	**14 922**

[40]

Unemployment can be defined as the percentage of people who are willing and able to work but cannot find work. [41] Since there was more money spent in Cape Town during 2013, firms could hire more employees and help decrease the unemployment rate. This is because firms no had higher revenues. Seasonal unemployment occurs when workers are only employed on a seasonal basis. [42] The tourism industry usually works in season and in this case, during busy seasons such as the summer, hotels and other firms in the tourism industry may need to hire more temporary staff in order to deal with the number of tourist that arrive during busy seasons. [43] We can see from the table above that there were many people that were temporarily employed. This is because most firms could only afford to hire them at peak business periods such as December. This could be bad for the tourism industry as temporary workers may not be as motivated to deliver the best service possible as they know their employment will not last long.

The majority of unemployment in South Africa is at the unskilled/semi-skilled level and since the majority of people employed in the tourism industry of Cape Town are at that level, it is good for the economy.

The number of unemployed people in Cape Town decreased by 12 000 individuals

[40] Appendix 3: Grant Thornton and City of Cape Town. Economic Value of Tourism Cape Town.

[41] Mankiw, N. Gregory. *Principles of Economics 5th edition*: South-Western Cengage Learning 2008

[42] Blink, Jocelyn & Dorton, Ian. *IB Diploma Programme Economics Course Companion Oxford 2nd edition* Oxford University Press 2012 pg 213

[43] Appendix 2 interview with Racquel Barnard (Tourism Department Cape Town) 17-02-2014

between the first quarter of 2013 and the second quarter of 2013. [44] This was despite a contraction of employment, and should be understood as being the result of people leaving the labour force. On an annual basis, the number of unemployed people in the City increased by 2 000 individuals. As a result of decreasing unemployment due to people exiting the labour force, Cape Town's strict/official unemployment rate decreased by 0.4 percentage points to 26% in the 2nd quarter, but saw an increase of 1.5 percentage points on the rate in the same period in 2012. [45]

The impact on the tourism industry is that there is now a larger pool of skilled employees in firms such as hotels. This improves the standard of services available and if tourists are satisfied with the quality and standard of service they receive, they may come back again in the future.

[44] Appendix 2 interview with Racquel Barnard (Tourism Department Cape Town) 17-02-2014

[45] https://www.capetown.gov.za/en/ehd/Documents/Cape%20Town%20Quarterly%20Report%20Q2%202013%20Final.pdf accessed 22-02-2014

7 18

8. Factors that affect the tourism industry:

Various factors affect the tourism industry other than exchange rates. When tourists consider going on holiday to a certain country, they have to carefully consider the pros and cons of going there. Mainly, they focus on safety, health and happiness in that order respectively. [46] Therefore, factors such as the crime rate are very important. Although people fear Johannesburg, Cape Town is the most dangerous city in South Africa. [47] It was also ranked the fourth most dangerous city in the world for 2013. [48] This is a factor that could have kept potential tourists from coming to visit Cape Town and go to cities like Durban instead.

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Marketing is a very important factor when it comes to tourism. The 2010 FIFA World Cup put South African tourism on the map. After the world cup, there have been more tourist arrivals in South Africa and Cape Town. The New York Times as well as the other newspapers ranked Cape Town as the number one place to visit. Cape Town was also chosen ahead of Dublin and Bilbao as the Design Capital for 2014. [49] Cape Town was also named as the host city 0f the annual Tomorrow Land Festival in 2015, which is a big music festival that attracts thousands of people and musicians across the world. These factors could potentially be reasons for the increase in tourist arrivals.

Another unique aspect that convinces tourists to go to Cape Town is the professional medical care available there. Cape Town has great medical care in their hospitals and the first successful heart transplant was conducted there. Cape Town is also a malaria-free city and that really attracts tourists as they know they will not be infected as apposed to a vacation in Mozambique. Tourists also feel assured as they know they will be taken care of if anything happens to them whilst on holiday. [50]

The recent passing of Nelson Mandela was headline news across the world. One of the tourist hotspots in Cape Town is Robben Island the prison where Nelson Mandela

[46] Interview with Nombulelo Mkefa, Tourism Director (City of Cape Town) 2-01-2014
[47] http://mg.co.za/article/2013-09-19-where-murder-happens-in-south-africa accessed 12-03-2014
[48] http://listtoptens.com/top-10-most-dangerous-cities-in-2013-2014/ accessed 12-03-2014
[49] http://mg.co.za/article/2014-03-11-luxury-tourism-booms-in-cape-town accessed 12-03-2014
[50] Interview with Nombulelo Mkefa, Tourism director (City of Cape Town) 27-01-2014

spent most of his sentence in. After his passing, natives as well as tourists flocked to Cape Town and the visits to Robben Island increased by 6.7% in December alone. [51] Therefore, we can see that the depreciation of the exchange rate was not the only reason for the increase in the number of tourists that came to Cape Town.

[51] http://mg.co.za/article/2014-03-11-luxury-tourism-booms-in-cape-town accessed 12-03-2014

9. Conclusion:

The exchange rate of the Rand has depreciated gradually over the recent months. The main contribution to this significant depreciation has been due to the platinum mine strikes outside Cape Town. However, the weakening exchange rate did not affect the tourism industry negatively. Foreigners had more money to spend since the exchange rate was low. The number of foreign arrivals in Cape Town increased and the total revenue gained in tourism also increased. Overall, the tourism industry of Cape Town did well in 2013.

However, the weakening Rand is not the only explanation of the boost in tourism of Cape Town. Other qualitative factors were in play. Most notably, the recent passing of former president, Nelson Mandela caused people from South Africa and abroad to go to Robben Island, the prison in which he served most of his sentence in.

From the investigation, we can see that the fall in the exchange rate was a positive aspect for the tourism industry of Cape Town. However, the investigation is limited as it is difficult to measure the qualitative aspects of why people went to Cape Town. For example, it is difficult to quantify the number of people that did not go to Cape Town because of safety reasons. People may have gone there regardless of the exchange rate if they had personal reasons for going there. Another difficulty is to quantify the number of foreign tourists who came here for personal reasons such as visiting family. Those arrivals have nothing to do with the exchange rate.

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Appendix 2 Interview with Racquel Barnard

1. How would you describe the tourism sector?

Personally, I feel as if it is the most sustainable sector in South Africa. We will always have our beautiful landmarks such as Table Mountain and tourism generates a lot of money for the country.

2. What are the factors that influence tourism?

A major factor is crime. South Africa has a really high crime rate and I think it is one of the biggest factor that is keeping people from visiting.

3. How much employment is there in tourism?

When looking at employment, we can say that around 55 000 people are employed in the tourism industry. However, there are many small informal businesses such as handcrafters and artists whom are not accounted for.

4. How significant is the exchange rate in tourism?

The exchange rate is really significant. Foreigners tend to spend to spend more money and time in South African when the Rand is weak.

5.What is the main purpose for the tourism department?

Our purpose is to market to city of Cape Town to both local and internationals. I feel we do a really great job especially after the 2010 FIFA World Cup.

Appendix 3

Grant Thornton
An instinct for growth

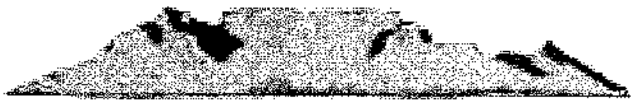
THIS CITY WORKS FOR YOU

City of Cape Town

Research on the Monitoring of Trends in Economic Value of Tourism in Cape Town

National Tourism Data Projection and Tourism Enterprise Survey Projection

August 2013



Contents

1. Introduction

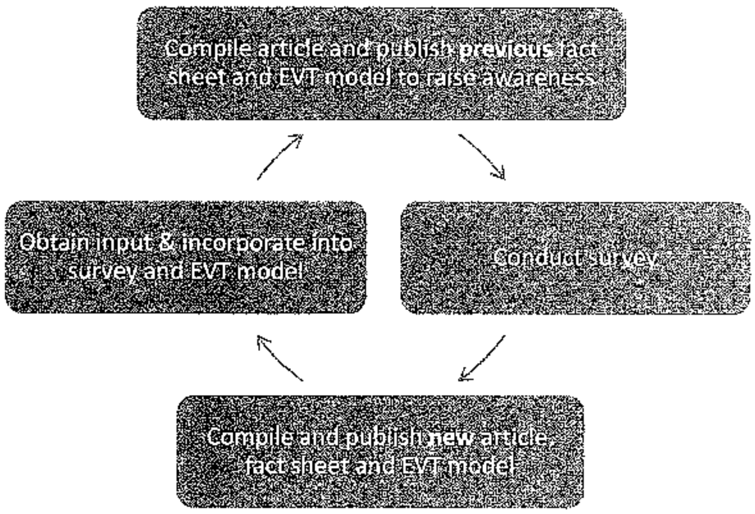
1.1 Background

The City of Cape Town (**"the Client"**) started to monitor the economic value of tourism in Cape Town in 2008. The purpose of the monitoring was to create baseline data on the economic value of tourism ("EVT") as well as to elicit comment and inputs from relevant stakeholders.

The City of Cape Town has now commissioned Grant Thornton to update the baseline report that was conducted. Grant Thornton has been appointed for a three year period to compile the economic value of tourism report for 2011 to 2015.

1.2 Approach and Methodology

Our methodology is based on a circular process approach as indicated in the diagram below.



During the three year process we will develop the economic value of tourism model from its current approach utilising primary and secondary data to add a **simulated tourism satellite account** which will quantify the contribution of the tourism industry to the economy of Cape Town by utilising the economic sector data for Cape Town.

Our methodology is detailed below:

Phase 1: Project Initiation
At the start of the project, we will:

- Meet with the Client to confirm and detail the project scope and constraints;
- Together with the client or designated officials, agree on the project management approach to this assignment, including:
  - The number, dates and location of meetings;
  - Confirmation of the Client and consultant's project managers;
  - Confirm the composition and formation of a working committee/panel of experts;
  - Confirm relevant stakeholder to consult;
  - Agreement on all reporting formats;
  - Agreement on report frequency (i.e. monthly progress reports); etc.
- Prepare and submit a detailed project plan (in MS-Excel) to the Client, including the proposed work plan and agreed upon deliverables and time frames; and
- Finalise all contractual arrangements and quality control procedures.

Phase 2: Obtain Input on the Methodology
Following the project initiation phase, we will:

- Convene a meetings with the client, working committee, panel of experts and relevant stakeholders to obtain input on the previous study to verify the methodology and survey questionnaire design;
- Present the methodology for the compilation of the simulated tourism satellite account for Cape Town;
- Update and modify the methodology as required;

Phase 3: Raise Awareness by Publishing Article and Previous Study
Following methodology update phase, we will:

- Compile an article on the purpose and process of the intended survey;
- Obtain approval from the client on the contents of the article;
- Publish the article through the various channels of the City of Cape Town, Cape Town Tourism, online media and associations such as Satsa, Fedhasa, Saaci, etc;

Phase 4: Conduct the Survey
Following the raising of awareness phase, we will:

- Conduct the primary research through a web based questionnaire. The exact extent for the primary research is difficult to determine, however, a broad methodology for primary research is outlined below.

- In order to determine the economic value of tourism we will need to survey a statistically relevant sample of tourism product owners such as tour operators, restaurants, attractions and accommodation owners.
- A statistically relevant sample size for primary research will be determined based on databases available from Cape Town Tourism and any other available source. The sample for the detailed survey should be from a variety of business types and sizes as well as being spread across different areas of the city.
- Based on a survey conducted by the University of Stellenbosch in 2007 there are an estimated 2 240 attractions, accommodation establishments and restaurants in the Cape Town area. We propose that a relevant statistical sample, to a 95% confidence level with a 50% degree of variability and a confidence interval of +-7% be a sample of 190-200[1].

- Collate and analyse all relevant national, provincial and municipal tourism data to assess the direct spend by visitors to Cape Town;

- Collate and analyse the municipal economic sector data produced by economic consultancies such as Quantec.

Phase 5: Update the Economic Value of Tourism

Following survey phase, we will:

- Update the economic value of tourism report, fact sheet and model based on the primary and secondary data obtained;

- Compile a draft simulated tourism satellite account for Cape Town. Our methodology for the compilation of the draft simulated tourism satellite account include:
  - Analysis the economic sector data for Cape Town produced by economic consultancies such as Quantec;
  - Projecting the share of these economic sector data that are related to tourism utilising methodologies from the United Nations World Tourism Organisation ("**UNWTO**") and World Tourism and Travel Council ("**WTTC**").

The above research will enable us to:

- Project the number of direct jobs created by tourism in the Cape Town area;

- Project the direct economic value of the tourism industry in the Cape Town area; and

- Use multipliers to project the indirect and induced impact Cape Town has on the wider Regional and National economy.

Phase 6: Presentation and Consultation of the Economic Value of Tourism

Following compilation of the economic value of tourism we will present the results and obtain input from the client, working committee and general stakeholders.

The process will then bring us back to the raising of awareness phase.

[1] The proposed statistical sample was not achieved. Please see the detail in Section 3

1.3 Terminology

The following terminology has been used in this report.

Cape Town	- The geographical area represented by the municipal boundaries of the City of Cape Town
EVT	- Economic Value of Tourism
Fedhasa	- Federated Hospitality Association of South Africa
R bn	- Rand billion
SA Tourism	- South African Tourism
Saaci	- South African Association for the Conference Industry
Satsa	- Southern African Tourism Services Association
The Client	- City of Cape Town
TSA	- Tourism Satellite Account
UNWTO	- United Nations World Tourism Organisation
WTTC	- World Tourism and Travel Council

1.4 Definitions

The following definitions are utilised in this report and are as per the definitions used by the United Nations World Tourism Organisation.

Tourism

Tourism is a social, cultural and economic phenomenon which entails the movement of people to countries or places outside their usual environment for personal or business/professional purposes. These people are called visitors (which may be either tourists or excursionists; residents or non-residents) and tourism has to do with their activities, some of which imply tourism expenditure.

As such, tourism has implications on the economy, on the natural and built environment, on the local population at the destination and on the tourists themselves. Due to these multiple impacts, the wide range and variety of production factors required to produce those goods and services acquired by visitors, and the wide spectrum of stakeholders involved or affected by tourism, there is a need for a holistic approach to tourism development, management and monitoring. This approach is strongly recommended in order to formulate and implement national and local tourism policies as well as the necessary international agreements or other processes in respect of tourism.

Business visitor

A business visitor is a visitor whose main purpose for a tourism trip corresponds to the business and professional category.

Country of reference

The country of reference refers to the country for which the measurement is done. As a general observation, it should be noted that in the International Recommendations 2008:

(a) The term "country" can be transposed to a different geographical level using the term "place" instead (either a region, municipality or other subnational geographic location);

(b) The term "long-term" is used as the equivalent of a year or more and "short-term" as less than a year.

Country of residence

The country of residence of a household is determined according to the centre of predominant economic interest of its members. If a person resides (or intends to reside) for more than one year in a given country and has there his/her centre of economic interest (for example, where the predominant amount of time is spent), he/she is considered as a resident of this country.

Destination (main destination) of a trip

The main destination of a tourism trip is defined as the place visited that is central to the decision to take the trip. See also purpose of a tourism trip.

Domestic tourism

Comprises the activities of a resident visitor within the country of reference, either as part of a domestic tourism tripor part of an outbound tourism trip.

Economic analysis

Tourism generates directly and indirectly an increase in economic activity in the places visited (and beyond), mainly due to demand for goods and services that need to be produced and provided.

In the economic analysis of tourism, one may distinguish between tourism's 'economic contribution' which refers to the direct effect of tourism and is measurable by means of the TSA, and tourism's 'economic impact' which is a much broader concept encapsulating the direct, indirect and induced effects of tourism and which must be estimated by applying models.

Economic impact studies aim to quantify economic benefits, that is, the net increase in the wealth of residents resulting from tourism, measured in monetary terms, over and above the levels that would prevail in its absence.

Employment in tourism industries

Employment in tourism industries may be measured as a count of the persons employed in tourism industries in any of their jobs, as a count of the persons employed in tourism industries in their main job, as a count of the jobs intourism industries, or as full-time equivalent figures.

Excursionist (or same-day visitor)

A visitor (domestic, inbound or outbound) is classified as a same-day visitor (or excursionist) if his/her trip does not include an overnight stay.

Forms of tourism

There are three basic forms of tourism: domestic tourism, inbound tourism, and outbound tourism. These can be combined in various ways to derive the following additional forms of tourism: internal tourism, national tourism and international tourism.

Inbound tourism

Comprises the activities of a non-resident visitor within the country of reference on an inbound tourism trip.

Internal tourism
Internal tourism comprises domestic tourism plus inbound tourism, that is to say, the activities of resident and non-resident visitors within the country of reference as part of domestic or international tourism trips.

International tourism
International tourism comprises inbound tourism plus outbound tourism, that is to say, the activities of resident visitors outside the country of reference, either as part of domestic or outbound tourism trips and the activities ofnon-resident visitors within the country of reference on inbound tourism trips.

Meetings industry
To highlight purposes relevant to the meetings industry, if a trip's main purpose is business/professional, it can be further subdivided into "attending meetings, conferences or congresses, trade fairs and exhibitions" and "other business and professional purposes".

The term meetings industry is preferred by the International Congress and Convention Association (ICCA), Meeting Professionals International (MPI) and Reed Travel over the acronym MICE (Meetings, Incentives, Conferences and Exhibitions) which does not recognize the industrial nature of such activities.

MICE
See meetings industry.

National tourism
National tourism comprises domestic tourism plus outbound tourism, that is to say, the activities of resident visitors within and outside the country of reference, either as part of domestic or outbound tourism trips.

Outbound tourism
Comprises the activities of a resident visitor outside the country of reference, either as part of an outbound tourism trip or as part of a domestic tourism trip.

Place of usual residence
The place of usual residence is the geographical place where the enumerated person usually resides, and is defined by the location of his/her principal dwelling (Principles and recommendations for population and housing censuses of the United Nations, 2.20 to 2.24).

Purpose of a tourism trip (main)
The main purpose of a tourism trip is defined as the purpose in the absence of which the trip would not have taken place. Classification of tourism trips according to the main purpose refers to nine categories: this typology allows the identification of different subsets of visitors (business visitors, transit visitors, etc).

See also destination of a tourism trip

Tourism expenditure
Tourism expenditure refers to the amount paid for the acquisition of consumption goods and services, as well as valuables, for own use or to give away, for and during tourism trips.

Tourism industries
Tourism industries (also referred to as tourism activities) are the activities that typically produce tourism characteristic products.

Tourism characteristic products are those that satisfy one or both of the following criteria:
(a) Tourism expenditure on the product (either good or service) should represent a significant share of total tourism expenditure (share-of-expenditure/demand condition);
(b) Tourism expenditure on the product should represent a significant share of the supply of the product in the economy (share-of-supply condition). This criterion implies that the supply of a tourism characteristic product would cease to exist in meaningful quantity in the absence of visitors.

List of categories of tourism characteristic products and tourism industries[2]

Products	Industries
1. Accommodation services for visitors	1. Accommodation for visitors
2. Food and beverage serving services	2. Food and beverage serving activities
3. Railway passenger transport services	3. Railway passenger transport
4. Road passenger transport services	4. Road passenger transport
5. Water passenger transport servcies	5. Water passenger transport
6. Air passenger transport services	6. Air passenger transport
7. Transport equipment rental services	7. Transport equipment rental
8. Travel agencies and other reservation services	8. Travel agencies and other reservation services activities
9. Cultural services	9. Cultural activities
10. Sports and recreational services	10. Sports and recreational activities
11. Country-specific tourism characteristic goods	11. Retail trade of country-specific tourism characteristic goods
12. Country-specific tourism characteristic services	12. Other country-specific tourism characteristic activities

Tourism Satellite Account (TSA)
The Tourism Satellite Account (described in the Tourism Satellite Account: Recommended Methodological Framework 2008) is, besides the International Recommendations for Tourism Statistics 2008, the second international recommendation on tourism statistics that has been developed in a framework of consistency with the System of National Accounts. Both recommendations are mutually consistent and provide the conceptual framework for measuring and analyzing tourism as an economic activity.

As a statistical tool for the economic accounting of tourism, the TSA can be seen as a set of 10 summary tables, each with their underlying data and representing a different aspect of the economic

[2] Please note that not all these products and industries have been included in the survey. Please see Section 3 for more detail.

data relative to tourism: inbound, domestic tourism and outbound tourism expenditure, internal tourism expenditure, production accounts of tourism industries, the Gross Value Added (GVA) and Gross Domestic Product (GDP) attributable to tourism demand, employment, investment, government consumption, and non-monetary indicators.

Tourism sector
The tourism sector, as contemplated in the TSA, is the cluster of production units in different industries that provide consumption goods and services demanded by visitors. Such industries are called tourism industries because visitor acquisition represents such a significant share of their supply that, in the absence of visitors, their production of these would cease to exist in meaningful quantity.

Tourist (or overnight visitor)
A visitor (domestic, inbound or outbound) is classified as a tourist (or overnight visitor), if his/her trip includes an overnight stay.

Travel / tourism
Travel refers to the activity of travellers. A traveller is someone who moves between different geographic locations, for any purpose and any duration. The visitor is a particular type of traveller and consequently tourism is a subset of travel.

Travel party
A travel party is defined as visitors travelling together on a trip and whose expenditures are pooled.

Trip
A trip refers to the travel by a person from the time of departure from his/her usual residence until he/she returns: it thus refers to a round trip. Trips taken by visitors are tourism trips.

Usual environment
The usual environment of an individual, a key concept in tourism, is defined as the geographical area (though not necessarily a contiguous one) within which an individual conducts his/her regular life routines.

Vacation home
A vacation home (sometimes also designated as a holiday home) is a secondary dwelling that is visited by the members of the household mostly for purposes of recreation, vacation or any other form of leisure.

Visit
A trip is made up of visits to different places. The term tourism visit refers to a stay in a place visited during a tourism trip.

Visitor
A visitor is a traveller taking a trip to a main destination outside his/her usual environment, for less than a year, for any main purpose (business, leisure or other personal purpose) other than to be employed by a resident entity in the country or place visited. A visitor (domestic, inbound or outbound) is classified as a tourist (or overnight visitor), if his/her trip includes an overnight stay, or as a same-day visitor (or excursionist) otherwise.

2. Projection of the Economic Value of Tourism in Cape Town utilising National Data

2.1 Introduction

The first step in the research process on the economic value of tourism in Cape Town is a projection based on information obtained from SA Tourism and projections by Grant Thornton.

Please note that, prior to the SA Tourism report in 2010, SA Tourism could only report on foreign visitor arrivals as there was no way of separating out day visitors from the overall arrivals. In 2009, Statistics SA for the first time was able to make the distinction between tourists and day visitors and started a data series for tourist arrivals that was aligned to the globally accepted definition of a tourist. SA Tourism could only utilise this information for the first time in its 2010 reports. As a result of this change, the weighting methodology of SA Tourism has been revised and the results in reports prior to 2010 are not comparable to reports post 2010.

Grant Thornton has utilised information contained in the 2010 SA Tourism report to complete the 2009 projection for the economic value of tourism in Cape Town. In addition the 2011 SA Tourism annual report and the SA Tourism quarter reports for 2012 were utilised to complete the projection.

Cape Town's share of arrivals, bednights and spend were estimated by utilising data obtained from SA Tourism reports prior to 2009 and the arrivals on international and domestic flights were utilised as proxy for the change in Cape Town's share.

This approach is flawed as it does not contain recent projections as to Cape Town's share of arrivals, bednights and spend but it is the only information that is available at the time of the research and writing of the report. Any input from stakeholders as to a better methodology to use will be welcomed.

2.2 Economic Value of Tourism in Cape Town based on National Data 2009 - 2012

The economic value of tourism based on the national SA Tourism data projection contains the following information for 2009 to 2012:

- Foreign arrivals to South Africa, the Western Cape and Cape Town;
- Foreign bednights spent in South Africa, the Western Cape and Cape Town;
- Foreign direct spend in South Africa, the Western Cape and Cape Town;

- Domestic tourism trips taken to destinations in South Africa, the Western Cape and to Cape Town;
- Domestic bednights spent in South Africa, the Western Cape and in Cape Town;
- Total spend during domestic trips to destinations in South African, the Western Cape and in the Cape Town.

To project the economic value of foreign and domestic tourists to Cape Town Grant Thornton utilised the foreign and domestic direct spend in South Africa and the Western Cape as per the data from SA Tourism. Based on the share of foreign and domestic bednights spent in Cape Town (see Table 2.2), we projected the share of the foreign and domestic direct spend in Cape Town (See Table 2.3).

Table 2.1: Foreign Arrivals and Domestic Trips

	Source	2009	2010	2011	2012
Foreign Arrivals					
Total Foreign Arrivals to South Africa	SA Tourism	7 011 865	8 073 552	8 339 354	9 188 368
Share of Foreign Arrivals to the Western Cape	SA Tourism	18.8%	18.6%	16.7%	14.9%
Number of Foreign Arrivals to the Western Cape	SA Tourism	1 316 795	1 504 698	1 391 228	1 368 894
Share of Foreign Arrivals to Cape Town	Estimate	93%	91%	97%	96%
Number of Foreign Arrivals to Cape Town	**Calculation**	**1 224 619**	**1 374 180**	**1 293 842**	**1 273 072**
Domestic Tourism Trips					
Total number of domestic trips taken in South Africa	SA Tourism	30 300 000	29 700 000	26 400 000	25 300 000
Share of domestic trips taken to the Western Cape	Calculation	11.6%	9.1%	9.1%	10.2%
Number of domestic trips taken to the Western Cape	SA Tourism	3 500 000	2 700 000	2 400 000	2 589 362
Share of domestic trips taken to Cape Town	Estimate	44%	47%	49%	48%
Number of domestic trips taken to Cape Town	**Calculation**	**1 540 000**	**1 188 000**	**1 056 000**	**1 139 319**

Source: Grant Thornton

The projected number of foreign arrivals to Cape Town has declined in 2011 and 2012 as the Western Cape's share as well as the Cape Town's share of foreign arrivals has declined. Even though the actual number of total foreign arrivals to South Africa has increased, the actual number of foreign arrivals to Cape Town has decreased due to the Western Cape and Cape Town losing market share.

The actual number of domestic trips to Cape Town has increased in 2011 and 2012 even though actual number of total domestic trips undertaken in South Africa has declined over the same period. The increase in the actual numbers of domestic trips to Cape Town is due to an increase in the market share of domestic trips undertaken to the Western Cape and Cape Town respectively in 2011 and 2012.

Unfortunately the data to compare the number of foreign arrivals and domestic trips to other major cities are not readily available.

Table 2.2: Foreign and Domestic Bednights

	Source	2009	2010	2011	2012
Foreign Bednights					
Total Number of Bednights by Foreign Arrivals to SA	SA Tourism	55 802 589	66 852 503	66 153 429	68 134 864
Share of Foreign Bednights in the Western Cape	SA Tourism	28.1%	29.9%	25.6%	23.8%
Number of Bednights by Foreign Arrivals to the Western Cape	SA Tourism	15 680 688	19 971 821	16 961 520	16 210 079
Share of Foreign Bednights in Cape Town	Estimate	68%	67%	71%	70%
Number of Bednights by Foreign Arrivals in Cape Town	**Calculation**	**10 656 778**	**13 573 082**	**11 527 247**	**11 016 559**
Domestic Bednights					
Total number of domestic bednights in South Africa	SA Tourism	128 400 000	130 800 000	115 200 000	121 200 000
Share of domestic bednights on trips taken to the Western Cape	Calculation	12.0%	11.0%	11.0%	11.0%
Number of domestic bednights on trips taken to the Western Cape	SA Tourism	15 408 000	14 388 000	12 672 000	13 332 000
Share of domestic bednights on trips to Cape Town	Estimate	44%	47%	49%	48%
Number of domestic bednights on trips to Cape Town	**Calculation**	**6 779 520**	**6 330 720**	**5 575 680**	**5 866 080**

Source: Grant Thornton

The number of foreign bednights spent in Cape Town has declined as the share of foreign bednights spent in the Western Cape has declined.

The number of domestic bednights spent in Cape Town between 2009 and 2012 has declined as the total number of domestic bednights in South Africa has declined. In 2012 the number of domestic bednights spent in Cape Town has increased with the increase in the total number of domestic bednights.

Table 2.3: Economic Value of Tourism based on National Data

	Source	2009	2010	2011	2012
Foreign Direct Spend					
Total foreign direct spend in South Africa (R bn)	SA Tourism	67.0	76.3	74.0	77.8
Share of foreign direct spend in the Western Cape	SA Tourism	24.8%	28.4%	24.6%	23.2%
Total foreign direct spend in the Western Cape (R bn)	SA Tourism	16.6	21.7	18.2	18.1
Share of foreign direct spend in the Cape Town	Estimate	68%	67%	71%	70%
Total foreign direct spend in the Cape Town (R bn)	**Calculation**	**11.3**	**14.5**	**12.9**	**12.7**
Total Domestic Spend					
Total spend by domestic tourists in South Africa (R bn)	SA Tourism	22.4	21.1	20.3	23.8
Share of total domestic spend in the Western Cape	Calculation	11.6%	15.6%	19.2%	16.4%
Total spend by domestic tourists in the Western Cape (R bn)	SA Tourism	2.6	3.3	3.9	3.9
Share of domestic spend in Cape Town	Estimate	44%	47%	49%	48%
Total spend by domestic tourists in Cape Town (R bn)	**Calculation**	**1.1**	**1.5**	**1.9**	**1.9**
Economic Value of Tourism based on National Data					
Total foreign direct spend in Cape Town (R bn)	Calculation	11.3	14.5	12.9	12.7
Total spend by domestic tourists in Cape Town (R bn)	Calculation	1.1	1.5	1.9	1.9
Total economic value of tourism in Cape Town (R bn)	**Calculation**	**12.4**	**16.0**	**14.7**	**14.6**

Source: Grant Thornton

Based on the national information the economic value of tourism in Cape Town was R12.4 billion in 2009, increasing to R16 billion in 2010, before declining to R14.7 billion in 2011 and R14.6 billion in 2012.

The reasons for the decline in the economic value of tourism between 2010 and 2012 can be listed as:

- The decline in the share of foreign arrivals to the Western Cape. The share of foreign arrivals to Cape Town has been estimated based on surveys in prior years and the arrivals on international flights at Cape Town International Airport;

- The decline in the share of foreign bednights spent in the Western Cape. This may be a result of the decline in the share of foreign arrivals to the Western Cape, but also a decline in the length of stay in the Western Cape.

- The decline in the share of foreign direct spend in the Western Cape. This may be a result of both the decline in the share of foreign arrivals to the Western Cape, as well as a decline in the share of foreign bednights spent in the Western Cape. It may also be a result of the decline in the average spend per day in the Western Cape.

It should however be remembered that in 2010 Cape Town achieved a strong increase in the economic value of tourism due to the Soccer World Cup being hosted in Cape Town. Since 2010, the economic value of tourism in Cape Town has declined in 2011 and 2012. However, the average annual growth in the economic value of tourism since between 2009 and 2012 has been 5.6% per annum.

3. Projection of the Economic Value of Tourism in Cape Town utilising a Survey of Tourism Enterprises

3.1 Introduction

The second step in the research process on the economic value of tourism in Cape Town is a projection based on a survey of tourism enterprises in Cape Town.

3.2 The Survey of Tourism Enterprises

The survey of tourism enterprises was conducted between Monday, 20 May 2013 and Monday, 3 June 2013. The survey was an online survey and an e-mail containing an explanation regarding the significance of the survey and a link to the relevant website were e-mailed to all the members of Cape Town Tourism, Fedhasa, Satsa and Saaci. The survey was also publicised in a press release which was distributed widely to the media by the City of Cape Town and Grant Thornton.

A total of 107 responses were received and a summary of the survey results are included in **Annexure A.** The achieved survey sample was low with a sample of around 200 being required to provide an analysis at a higher confidence level.

Tourism enterprises that responded to the survey were categorised according to type of enterprise and according to their size. The total number of tourism enterprises per category in 2012/13 was then estimated based on listings by Cape Town Tourism as well as a database compiled by the National Department of Tourism. For example, it is estimated that there were 202 Bed & Breakfast enterprises that have less than 4 rooms operating in Cape Town in 2012/13.

The next step was to project the average turnover and number of permanent and temporary employees per category by enterprise and size. This projection was based on the survey responses as well as Grant Thornton's knowledge of the tourism industry. For example, it was projected that the average Small Bed & Breakfast would have an average annual turnover of R250 000 per annum and employ one low level and one high level permanent employees, with one temporary employee.

Following the projection of the average turnover and employment it was multiplied with the total number of enterprises per category in 2012/13 to estimate the economic value of tourism in Cape Town. The detail estimated projection for 2012/13 is shown in **Annexure B**.

An analysis of the salary levels of employees was not included in this report as clear trends could not be identified from the survey results.

3.3 Economic Value of Tourism in Cape Town in 2012/13 based on a Survey of Tourism Enterprises

Based on the EVT model using a survey of 107 tourism enterprises in Cape Town it is projected that the economic value of tourism in Cape Town for 2012/13 is R11.9 billion and that there are around 34 600 permanent employees and around 15 000 temporary employees employed in Cape Town's tourism industry.

Table 3.1 indicates that the majority of the employment is in the low level category. This highlights the benefit of tourism of creating employment in the category where unemployment is at its highest.

Table 3.1: Estimated number of Employees in the tourism industry in Cape Town 2012/13

Employment	Permanent	Temporary
Low Level (Unskilled or semi-skilled)	19 113	12 256
Medium Level (Skilled & technically or academically qualified – supervisor, junior manager)	8 448	1 991
High Level (Experienced, professionally qualified, mid to senior managers)	7 024	675
Total	**34 584**	**14 922**

Source: Grant Thornton

The disaggregation of the data by type of tourism enterprise as shown in Annexure B should be treated with caution. Due to the low survey response of 107 respondents, Grant Thornton had to utilise secondary data to estimate where data was insufficient for a particular category.

The number of assumptions and the quality of the data, in part, explains the difference in the estimates of the economic value of tourism in Cape Town from the two methodologies used. It is hoped that future surveys will achieve a higher response rate and that the addition of the tourism satellite account calculations will add an additional benchmark for the economic value of tourism in Cape Town.

3.4 The Way Forward

The results from the disaggregated national data and the survey of tourism enterprises will be disseminated to relevant stakeholders for comment through scheduled workshops.

Specific workshops will be held to obtain input on the methodology used from academic and other stakeholders.

The input obtained will be incorporated in the next estimation of the economic value of tourism which will start with the disaggregation of national data and a repeat of the survey of tourism enterprises in 2014.

A draft tourism satellite account (TSA) for Cape Town will be compiled during August and September 2013. This draft tourism satellite account will be distributed to the steering committee members for comment but will not be released to a wide range of stakeholders. Once input from the steering committee members and selected stakeholders have been obtained, the draft satellite account will be compiled again in August and September 2014 and released for input from academia and tourism stakeholders.

Annexure A: Summary of the Survey of Tourism Enterprises

Page 1. City of Cape Town – Economic Value of Tourism Survey

Accomodation only

Kindly tick the relevant box if you are an accommodation enterprise. Other tourism enterprises please ignore this question

	% of Respondents	Number of Respondents
Single Hotel (* Hotel groups please see next question)	14.81%	12
Game/Safari Lodge	0.00%	0
Caravan/Camping	1.23%	1
Backpacker	3.70%	3
Letting pools/broker	2.47%	2
Wine Farm	1.23%	1
Bed & Breakfast	13.58%	11
Guesthouse	28.40%	23
Self catering	25.93%	21
Details Other (Specify)	8.64%	7
Chart *Number of respondents*		*70*
Number of respondents who skipped this question		*37*

Hotel Groups only

Please indicate the following (Please write only the numerical number e.g. 4) Other tourism enterprises please ignore this question

Details *The number of hotels within your group*	11
Details *The total number of rooms/units in your group*	13
Number of Respondents	13
Number of respondents who skipped this question	94

Accomodation only

Kindly tick the relevant option if you are an accommodation enterprise. Other tourism enterprises please ignore this question

	% of Respondents	Number of Respondents
1-3 Rooms/Units	23.08%	15
4-8 Rooms/Units	23.08%	15
9-15 Rooms/Units	13.85%	9
16-25 Rooms/Units	3.08%	2
26-50 Rooms/Units	13.85%	9
51-75 Rooms/Units	4.62%	3
76-100 Rooms/Units	3.08%	2
101 - 150 Rooms/Units	4.62%	3
151 - 200 Rooms/Units	3.08%	2
201 - 250 Rooms/Units	0.00%	0
251+ Rooms/Units	7.69%	5
Chart *Number of respondents*		*65*
Number of respondents who skipped this question		*42*

Other tourism enterprises
Kindly tick the relevant box for your type of tourism enterprise

	% of Respondents	Number of Respondents
Attractions & Activities with <250,000 visitors per annum	8.33%	10
Attractions & Activities with 250 000 - 500 000 visitors per annum	0.00%	0
Attractions & Activities with 500 000 - 1m visitors per annum	0.00%	0
Attractions & Activities with > 1m visitors per annum	0.83%	1
Business Tourism & Events Support Service	5.83%	7
Destination Marketing Company	2.50%	3
Events Venue (<25 delegates)	2.50%	3
Events Venue (26 - 50 delegates)	0.00%	0
Events Venue (51 - 100 delegates)	1.67%	2
Events Venue (101 - 250 delegates)	2.50%	3
Events Venue (>251 delegates)	3.33%	4
Film & related companies	0.83%	1
Meeting Venue (<25 delegates)	4.17%	5
Meeting Venue (26 - 50 delegates)	1.67%	2
Meeting Venue (51 - 100 delegates)	0.83%	1
Meeting Venue (101 - 250 delegates)	2.50%	3
Meeting Venue (>251 delegates)	1.67%	2
Professional Conference Organizer	5.00%	6
Professional & general services	3.33%	4
Retail Travel Agent	0.00%	0
Shop or store (individual)	0.83%	1
Shopping centre (<50 shops)	0.00%	0
Shopping centre (51-150 shops)	0.83%	1
Shopping centre (> 151 shops)	0.83%	1
Spa, health & personal care providers	2.50%	3
Transport Service (1-5 Vehicles)	4.17%	5
Transport Service (6-10 Vehicles)	1.67%	2
Transport Service (>10 Vehicles)	0.83%	1
Tourism services	5.83%	7
Tourist Guide	8.33%	10
Tour Operator (1-5 Vehicles)	10.83%	13
Tour Operator (6-10 Vehicles)	0.00%	0
Tour Operator (> 10 Vehicles)	0.00%	0
Restaurant (<25 seats)	0.00%	0
Restaurant (26 - 50 seats)	0.83%	1
Restaurant (51 - 100 seats)	3.33%	4
Restaurant (> 101 seats)	3.33%	4
Other (Specify)	8.33%	10
	Number of respondents	*57*
	Number of respondents who skipped this question	*50*

Chart

V1 / - MJVV / MJVV

Restaurants only
Please indicate if you are located within a hotel. Other tourism enterprises please ignore this question

	% of Respondents	Number of Respondents
Yes	53.85%	7
No	46.15%	6
Chart	*Number of respondents*	*13*
	Number of respondents who skipped this question	*94*

All respondents
Kindly answer the following with regard to the number of your employees (Please write only the numerical number e.g. 4)

	Number of permanent (full time) staff	Number of seasonal (part time) staff	Number of Respondents
Low Level (unskilled or semi-skilled)	70 resp	41 resp	82
Medium Level (Skilled and technically or academically qualified – supervisor, junior manager)	66 resp	35 resp	72
High Level (Experienced, professionally qualified, mid to senior managers)	71 resp	26 resp	76
[redacted]		*Number of Respondents*	*102*
		Number of respondents who skipped this question	*5*

All respondents
Please indicate the total cost to company level of your low level (unskilled or semi-skilled) employees

	% of Respondents	Number of Respondents
< R1 400 (total cost to company per month)	15.12%	13
R1 401 to R4 999 (total cost to company per month)	46.51%	40
R5 001 to R9 999 (total cost to company per month)	10.47%	9
R10 000 to R14 999 (total cost to company per month)	5.81%	5
R15 000 to R19 999 (total cost to company per month)	5.81%	5
R20 000 to R24 999 (total cost to company per month)	1.16%	1
>R25 000 (total cost to company per month)	15.12%	13
Chart	*Number of respondents*	*84*
	Number of respondents who skipped this question	*23*

All respondents
Please indicate the total cost to company level of your medium level (skilled and technically or academically qualified – supervisor, junior manager) employees

	% of Respondents	Number of Respondents
< R10 000 (total cost to company per month)	46.67%	35
R10 000 to R14 999 (total cost to company per month)	16.00%	12
R15 000 to R19 999 (total cost to company per month)	12.00%	9
R20 000 to R24 999 (total cost to company per month)	8.00%	6
R25 000 to R29 999(total cost to company per month)	2.67%	2
R30 000 to R34 999 (total cost to company per month)	1.33%	1
R35 000 to R39 999 (total cost to company per month)	2.67%	2
> R40 000 (total cost to company per month)	10.67%	8
Chart	*Number of respondents*	*70*
	Number of respondents who skipped this question	*37*

All respondents
Please indicate the total cost to company level of your high level (experienced, professionally qualified, mid to senior managers) employees

	% of Respondents	Number of Respondents
< R15 000 (total cost to company per month)	32.91%	26
R15 000 to R19 999 (total cost to company per month)	8.86%	7
R20 000 to R24 999 (total cost to company per month)	8.86%	7
R25 000 to R29 999(total cost to company per month)	11.39%	9
R30 000 to R34 999 (total cost to company per month)	8.86%	7
R35 000 to R39 999 (total cost to company per month)	5.06%	4
R40 000 to R44 999 (total cost to company per month)	2.53%	2
R45 000 to R49 999 (total cost to company per month)	2.53%	2
R50 000 to R54 999 (total cost to company per month)	3.80%	3
R55 000 to R59 999 (total cost to company per month)	0.00%	0
>R60 000 (total cost to company per month)	15.19%	12
Chart *Number of respondents*		***72***
Number of respondents who skipped this question		***35***

All respondents
Kindly indicate what the turnover of your enterprise is for the last 12 months?

	% of Respondents	Number of Respondents
< R100 000	12.87%	13
R100 000 to R249 999	10.89%	11
R250 000 to R499 999	8.91%	9
R500 000 to R749 999	5.94%	6
R750 000 to R999 999	2.97%	3
R1 000 000 to R1 999 999	9.90%	10
R2 000 000 to R2 999 999	5.94%	6
R3 000 000 to R3 999 999	4.95%	5
R4 000 000 to R4 999 999	3.96%	4
R5 000 000 to R9 999 999	10.89%	11
R10 000 000 to R19 999 999	4.95%	5
R20 000 000 to R49 999 999	3.96%	4
R50 000 000 to R99 999 999	1.98%	2
R100 000 000 to R199 999 999	2.97%	3
R200 000 000 to R299 999 999	0.00%	0
R300 000 000 to R399 999 999	0.99%	1
R400 000 000 to R499 999 999	0.00%	0
>R500 000 000	7.92%	8
Chart *Number of respondents*		***100***
Number of respondents who skipped this question		***7***

Annexure B: Estimated Economic Value of Tourism in Cape Town 2012/13

Cape Town Economic Value of Tourism Model
Tourism Enterprise Survey May 2013:

Type of Enterprise	Size	Number	Estimated Average Turnover	Average Number of			Average Number of			Estimated Total Turnover	Total Number of Permanent			Total Number of Temporary		
				Low Level	Medium Level	High Level	Low Level	Medium Level	High Level		Low Level	Medium Level	High Level	Low Level	Medium Level	High Level
B&B	Less than 4 rooms	202	250 000	1	0	1	1	0	0	50 500 000	202	-	202	202	-	-
	Between 4 and 8 rooms	81	750 000	2	0	1	1	0	0	60 750 000	162	-	81	81	-	-
	More than 8 rooms	37	2 250 000	4	3	1	2	0	0	83 250 000	148	111	37	74	-	-
Resort, caravan park & Camping	Less than 15 sites/units	2	200 000	1	0	1	2	0	0	400 000	2	-	2	4	-	-
	Between 15 and 25 sites/units	6	750 000	4	1	1	2	0	0	4 500 000	24	6	6	12	-	-
	More than 25 sites/units	9	2 750 000	8	5	3	6	4	0	24 750 000	72	46	27	54	36	-
Guesthouse	Less than 4 rooms	97	250 000	1	0	1	1	0	0	24 250 000	97	-	97	97	-	-
	Between 4 and 8 rooms	875	750 000	2	0	1	1	0	0	656 250 000	1 750	-	875	875	-	-
	More than 8 rooms	155	2 250 000	4	3	1	2	0	0	348 750 000	620	465	155	310	-	-
Backpacker	Less than 10 beds	2	200 000	3	2	2	2	0	0	400 000	6	4	4	4	-	-
	Between 10 and 25 beds	12	550 000	5	5	3	5	2	0	6 600 000	60	60	36	60	24	-
	More than 25 beds	16	2 500 000	10	7	5	10	5	0	40 000 000	160	112	80	160	80	-
Hotel	Less than 50 rooms	105	3 000 000	15	10	1	2	0	0	315 000 000	1 575	1 050	105	210	-	-
	Between 50 and 200 rooms	68	20 000 000	35	15	10	20	0	0	1 360 000 000	2 380	1 020	680	1 360	-	-
	More than 200 rooms	10	60 000 000	55	45	20	15	10	0	600 000 000	550	450	200	150	100	-
Lodge	Less than 4 rooms	26	350 000	1	0	1	1	0	0	9 100 000	26	-	26	26	-	-
	Between 4 and 8 rooms	11	850 000	2	0	1	1	0	0	9 350 000	22	-	11	11	-	-
	More than 8 rooms	33	3 000 000	4	3	1	2	0	0	99 000 000	132	99	33	66	-	-
Self-Catering	Less than 4 units	556	400 000	1	0	1	1	0	0	222 400 000	556	-	556	556	-	-
	Between 4 and 8 units	331	1 200 000	2	0	1	1	0	0	397 200 000	662	-	331	331	-	-
	More than 8 units	88	2 550 000	4	3	1	2	0	0	224 400 000	352	264	88	176	-	-
Conference Venue	Less than 50 seats	79	1 250 000	3	0	1	2	0	0	99 000 000	238	-	79	158	-	-
	Between 50 and 250 seats	70	4 500 000	10	5	3	8	4	1	316 800 000	704	352	211	563	282	70
	More than 250 seats	21	14 500 000	25	10	5	15	5	3	303 050 000	523	209	105	314	105	63
Transport Operators, Tour Operators & Tour Guides	Less than 5 vehicles/boats/planes	122	650 000	0	1	1	0	0	2	79 365 000	-	122	122	-	-	244
	Between 6 and 10 vehicles/boats/planes	72	1 200 000	2	2	3	0	0	3	85 800 000	143	143	215	-	-	215
	More than 10 vehicles/boats/planes	10	5 500 000	6	4	4	0	2	4	54 450 000	59	40	40	-	20	40
Attraction	Less than 250 000 visitors pa	254	2 250 000	4	2	2	1	0	0	571 500 000	1 016	508	508	254	-	-
	Between 250 000 and 500 000 visitors pa	148	20 000 000	6	4	5	2	1	0	2 960 000 000	888	592	740	296	148	-
	More than 500 000 visitors pa	22	45 000 000	10	25	10	4	2	2	990 000 000	220	550	220	88	44	44
Restaurant	Less than 50 seats	59	800 000	5	1	1	5	1	0	47 520 000	297	59	59	297	59	-
	Between 50 and 100 seats	113	1 800 000	10	4	2	10	2	0	203 940 000	1 133	453	227	1 133	227	-
	More than 100 seats	217	7 500 000	20	8	4	20	4	0	1 625 250 000	4 334	1 734	867	4 334	867	-
Total/Average		3 909	3 037 173	5	2	2	3	1	0	11 873 525 000	19 113	8 448	7 024	12 256	1 991	675

Annexure C: Fact Sheet

City of Cape Town Economic Value of Tourism Model Fact Sheet	Source	2009	2010	2011	2012
Foreign Direct Spend (excluding capital expenditure)					
Total Foreign Direct Spend in South Africa (R bn)	South African Tourism	67.0	76.3	74.0	77.8
Share of Foreign Direct Spend in the Western Cape	SA Tourism	24.8%	28.4%	24.6%	23.2%
Total Foreign Direct Spend in the Western Cape (R bn)	South African Tourism	16.6	21.7	18.2	18.1
Share of Foreign Direct Spend in Cape Town	Grant Thornton Estimate	68%	67%	71%	70%
Total Foreign Direct Spend in Cape Town (R bn)	**Calculation**	**11.3**	**14.5**	**12.9**	**12.7**
Total Domestic Spend					
Total spend by domestic tourists in South Africa (R bn)	South African Tourism	22.4	21.1	20.3	23.8
Share of total domestic spend in the Western Cape	Grant Thornton Estimate	11.6%	15.6%	19.2%	16.4%
Total spend by domestic tourists in the Western Cape (R bn)	South African Tourism	2.6	3.3	3.9	3.9
Share of domestic spend in Cape Town	Grant Thornton Estimate	44%	47%	49%	48%
Total spend by domestic tourists in Cape Town (R bn)	**Calculation**	**1.1**	**1.5**	**1.9**	**1.9**

Economic Value of Tourism: Disaggregated National Data		2009	2010	2011	2012
Total Foreign Direct Spend in Cape Town (R bn)	Calculation	11.3	14.5	12.9	12.7
Total spend by domestic tourists in Cape Town (R bn)	Calculation	1.1	1.5	1.9	1.9
Economic Value of Tourism in Cape Town (R bn)	**Calculation**	**12.4**	**16.0**	**14.7**	**14.6**

Economic Value of Tourism: Tourism Enterprise Survey (2012/13)				
Economic Value of Tourism in the Cape Town (R bn)	Calculation			**11.8**
Employment		**Permanent**	**Temporary**	
Low Level (Unskilled or semi-skilled)	Calculation	19 113	12 256	
Medium Level (Skilled and technically or academically qualified – supervisor, jr manager)	Calculation	8 448	1 991	
High Level (Experienced, professionally qualified, mid to senior managers)	Calculation	7 024	675	
Total	**Calculation**	**34 584**	**14 922**	