Automotive Industry in Indonesia
Growth Review Until The End of 2015

Indonesia is the second-largest car manufacturer in Southeast Asia (after Thailand). However, due to robust growth in recent years, Indonesia will increasingly threaten Thailand's dominant position over the next decade. Currently, Indonesia's total installed car production capacity stands at around two million units per year.

Attracted by low per capita-car ownership, low labor costs and a rapidly expanding middle class, various global car-makers (such as Toyota) decided to invest heavily to expand production capacity in Indonesia and may make it their future production hub. Others, such as General Motors have come back to Indonesia (after GM had shut down operations years earlier) to tap this lucrative market. However, Japanese car manufacturers remain the dominant players in Indonesia’s car manufacturing industry, particularly the Toyota brand. More than half of total domestic car sales involve Toyota cars. It will be a very difficult journey for western brands to compete with their Japanese counterparts in Indonesia.

Although the relatively new low-cost green car (LCGC) has gained popularity in Indonesia (see below), most Indonesians still prefer to buy the multipurpose (family) vehicle. The clear market leader in Indonesia’s car industry is Toyota (Avanza), distributed by Astra International (one of the largest diversified conglomerates in Indonesia which controls about 50 percent of the country's car sales market), followed by Daihatsu (also distributed by Astra International) and Honda.

INDONESIA INVESTMENTS

Vision of the Indonesian Government regarding the Automotive Industry

The Indonesian government is eager to turn Indonesia into a global production base for car manufacturing and would like to see all major car producers establishing factories in Indonesia as it aims overtake Thailand as the largest car production hub in Southeast Asia and the ASEAN region. On the long-term, the government wants to turn Indonesia into an independent car manufacturing country that delivers completely built units (CBU) of which all components are locally-manufactured in Indonesia.

Currently, Thailand controls roughly 43.5 percent of the ASEAN region in terms of sales, while Indonesia comes in on second place with a 34 percentage point market share.

Car Sales & Economic Growth

There exists a correlation between car sales and economic growth. When (per capita) gross domestic product (GDP) growth boosts people's purchasing power while consumer confidence is strong, people are willing to buy a car. However, in times of economic uncertainty (slowing economic expansion and reduced optimism - or pessimism - about future personal financial situations) people tend to postpone the purchase of relatively expensive items such as a car.

This correlation between domestic car sales and economic growth is clearly visible in the case of Indonesia. Between the years 2007 and 2012, the Indonesian economy grew at least 6.0 percent per year, with the exception of 2009 when GDP growth was dragged down by the global financial crisis. In the same period, Indonesian car sales climbed rapidly, but also with the exception of 2009 when a steep decline in car sales occurred.

	2007	2008	2009	2010	2011	2012	2013	2014	2015
GDP[2] (annual % change)	6.3	6.0	4.6	6.2	6.2	6.0	5.6	5.0	4.7[1]
GDP per Capita[2] (in USD)	1,861	2,168	2,263	3,125	3,648	3,701	3,624	3,492	
Car Sales (in million units)	0.43	0.61	0.49	0.76	0.89	1.12	1.23	1.21	1.01

Economic Growth & Car Sales Statistics of Indonesia:

[1] indicates a forecast
[2] the base year for computing the economic growth rate shifted from 2000 to 2010 in 2014, previous years have been recalculated
Sources: World Bank & Gaikindo

In the post-New Order period, economic growth of Indonesia peaked in the year 2011 at 6.2 percent (y/y). After 2011, Indonesia started to experience a period of persistent economic slowing, primarily on the back of international turmoil (sluggish global growth and rapidly falling commodity prices). However, car sales did not immediately follow the slowing economic growth pace and still managed to hit an all-time high sales figure in 2013 (1.23 million sold cars). This delay in falling car sales was partly caused by overly optimistic views of the Indonesian economy. In late-2012, institutions such as the World Bank, International Monetary Fund (IMF), Asian Development Bank (ADB) as well as the Indonesian government failed to understand the extent of the global slowdown. Instead, these institutions predicted softer economic growth in Indonesia in 2012 and rapidly expanding growth at +6 percent-levels from 2013 onward. However, as global conditions remained sluggish in the years 2013-2015, these institutions had to downgrade forecasts for Indonesian GDP growth on various occasions hence causing deteriorating sentiments.

Secondly, Indonesian car sales slowed in 2014 (after four straight years of growth) as the Indonesian government raised prices of subsidized fuels twice in order to relieve heavy pressures on the state budget deficit (in June 2013 the government had already raised subsidized fuel prices by an average of 33 percent but this had limited impact on car sales), while making funds available for structural investment (for example in infrastructure development). In early 2015, gasoline (premium) subsidies were basically scrapped altogether while a fixed IDR 1,000 per liter subsidy was set for diesel (solar). For many decades Indonesians enjoyed cheap fuel thanks to generous government energy subsidies but in the years 2013-2014 reforms led to gasoline prices soaring from IDR 4,500 (approx. USD $0.35) per liter in early 2013 to IDR 7,400 (approx. USD $0.57) per liter in mid-2015, a price increase of 62.9 percent.

Moreover, these subsidized fuel price reforms also caused accelerated inflation due to second-round effects (hence curbing Indonesians' purchasing power further) as prices of various products (for example food products) rose due to higher transportation costs. In both 2013 and 2014 inflation reached 8.4 percent (y/y). Meanwhile, per capita GDP was weakening due to slowing economic growth. Lastly, the weak rupiah (which had been weakening since mid-2013 due to looming tightening of US monetary policy) made imports more expensive. Given that many car components still need to be imported (in US dollars) hence raising production costs for Indonesian car manufacturers, price tags on cars became more expensive. However, not always have manufacturers and retailers been able to pass these costs on to end-users due to fierce competition in the domestic car market.

The central bank of Indonesia (Bank Indonesia) revised down payment requirements for the purchase of a car in an attempt to boost credit growth (and economic growth) as a BI rate cut is considered too risky ahead of looming higher US interest rates (causing a weak rupiah), while inflation was still above the central bank's target range in mid-2015. Effective from 18 June 2015, those Indonesian consumers who use a loan from a financial institution to purchase a passenger car need to pay a minimum down payment of 25 percent (from 30 percent previously). The minimum down payment for commercial vehicles remains at 20 percent. It is estimated that around 65 percent of car purchases in Indonesia are made through a loan.

Introduction of the Low Cost Green Car (LCGC) to Indonesia

The low-cost green car (LCGC) are affordable, fuel efficient cars that were introduced to the Indonesian market in late-2013 after the government had offered tax incentives to car manufacturers that meet requirements of fuel efficiency targets. These LCGC cars generally have a price tag of around IDR 100 million (approx. USD $7,700) making them attractive for the country's large lower middle class segment. Ahead of the implementation of the ASEAN Economic Community in late-2015, the Indonesian government wants to make Indonesia the regional hub for the production of LCGCs.

The government set several terms and conditions for the manufacturing of LCGCs. For example, fuel consumption is required to be set at least 20 kilometers per liter while the car must consist - for 85 percent - of locally manufactured components (hence making prices of this type of car less vulnerable to rupiah depreciation). In exchange, the LCGCs are exempted from luxury goods tax, which allows manufacturers and retailers to set cheaper prices.

These cars have a maximum engine capacity of 1,200 cubic centimeters, and are designed to use high-octane gasoline. The main players in Indonesia's LCGC industry are five well-known Japanese manufacturers: Toyota, Daihatsu, Honda, Suzuki and Nissan. Various LCGC models have been released since late-2013 (including the Astra Toyota Agya, Astra Daihatsu Ayla, Suzuki Karimun Wagon R, and Honda Brio Satya).

Indonesian Car Exports

The Indonesian government also has high hopes for the country's car exports (thus generating additional foreign exchange revenue), particularly ahead of the implementation of the ASEAN Economic Community (AEC), which will turn the ASEAN region into one single market and production area. The AEC will unlock more opportunities for exporters as it will intensify regional trade.

Indonesian-made cars that are already exported include the Toyota Avanza and Toyota Fortuner, the Nissan Grand Livina, the Honda Freed, Chevorelet Spin and Suzuki APV. The most important export markets are Thailand, Saudi Arabia, the Philippines, Japan, and Malaysia.

Outlook Indonesian Car Sales

The outlook for car sales in Indonesia relies on the country's economic growth performance. With no rebounding commodity prices in sight on the short or even middle-long term, car sales will have difficulty to grow at rates which we have seen in the 2010-2013 period. However, Indonesia's GDP growth is expected to improve slightly in 2016 and 2017, implying an end to the economic slowdown that occurred since 2011, and therefore car sales may grow accordingly (yet modestly).

There are a few factors that support car sales in Indonesia. First, Indonesia still has a very low per capita car ownership ratio (less than four percent of the population owns a car) implying there is enormous scope for growth. Secondly, the popular and affordable low-cost green car (LCGC) is expected to boost sales. Currently LCGC sales still form a small portion of total car sales in Indonesia (about 14 percent) and therefore there is also ample room for further growth in the LCGC segment.

The Indonesian Automotive Industry Association (Gaikindo) cut its forecast for Indonesian car sales in 2015 (twice) to the range of 950,000 to one million sold units (from an initial target of 1.2 million cars. The institution is pessimistic to see a rebound if global commodity prices remain low. The islands Sumatra and Kalimantan, key regions for the production of coal, crude palm oil and mineral ores, form lucrative car sales markets that cannot be tapped currently due to sluggish global demand for commodities. Sales are likely to remain flat in 2016.

Regarding the longer-term, Gaikindo projects Indonesian car sales to grow to two million vehicles by 2020 and to three million by 2025, hence overtaking Thailand's position as the major car hub in the ASEAN region.

Car Sales Indonesia in 2015:

In full-year 2015 car sales in Indonesia fell 16.1 percent to 1.01 million vehicles, the lowest sales figure since 2011. However, this result is hardly a surprise and possibly stakeholders may feel content to see that the sales figure still managed to exceed one million vehicles last year.

The years 2014 and 2015 have been tough for Indonesia's automotive industry (as well as for other industries) due to slowing economic growth, high inflation triggered by several subsidized fuel price/policy reforms (although inflation finally eased sharply in late 2015), and weak commodity prices (causing sales to drop sharply in the commodity-rich regions of Sumatra and Kalimantan).

Toyota, distributed by Astra International, remains the most popular brand in Indonesia, accounting for a 31.8 percent market share in terms of car sales in Indonesia.

Read Column: Analysis and Overview of Indonesia's Automotive Industry

Noegardjito, Secretary of the Indonesian Automotive Industry Association (Gaikindo), expects Indonesian car sales to grow five percent (y/y) next year on improving economic conditions.

Indonesian Car Sales (CBU):

Month	Sold Cars 2012	Sold Cars 2013	Sold Cars 2014	Sold Cars 2015
January	76,427	96,718	103,609	94,194
February	86,486	103,278	111,824	88,740
March	87,917	95,996	113,067	99,410
April	87,144	102,257	106,124	81,600
May	95,541	99,697	96,872	79,375
June	101,746	104,268	110,614	82,172
July	102,511	112,178	91,334	55,615
August	76,445	77,964	96,652	90,537
September	102,100	115,974	102,572	93,038
October	106,754	112,039	105,222	88,408
November	103,703	111,841	91,327	86,938
December	89,456	97,706	78,802	73,264
Total	**1,116,230**	**1,229,916**	**1,208,019**	**1,013,291**

Brand	2014	2015	YoY Growth (%)
Toyota (Astra)	399,746	322,466	-19.3
Daihatsu (Astra)	185,226	167,808	-9.4
Honda	159,147	159,253	+0.06
Suzuki	154,923	121,805	-21.4
Mitsubishi	141,962	112,527	-20.7
Nissan	33,789	25,108	-25.7
Isuzu (Astra)	28,278	19,350	-31.5
UD Trucks (Astra)	854	560	-34.4
Peugeot (Astra)	65	40	-38.5
Others	104,029	84,374	-18.9
Total	**1,208,019**	**1,013,291**	**-16.1**

Source: Astra International

Motorcycle Sales Indonesia in 2015

Motorcycle sales in Indonesia in 2015 declined 17.6 percent to 6.48 million units. As usual, Indonesian motorcycle sales were dominated by sales of Honda motorcycles, followed by Yamaha. However, last year Kawasaki overtook Suzuki as the country's third-most popular motorcycle brand.

Michael Tjandra Tanadi, Head of Marketing at Kawasaki Motor Indonesia, said a change occurred in Indonesia's motorcycle market in 2015. He detected a sharp rise in consumers' interest for sport bikes.

A look at the table below shows that the main motorcycle brands sold in Indonesia all experienced declining sales figures. Honda, distributed by Astra Honda Motor, remains the market leader and in fact managed to expand its market share as the other motorcycle brands were plagued by heavier declines in sales. Tira Adianti, Head of Investor Relations at Astra International, said 2016 should be a more positive year despite ongoing external threats (such as the impact of China's economic slowdown). "In our optimistic scenario, Indonesia's motorcycle sales can grow five percent (y/y) in 2016", Adianti said.

Indonesian Motorcycle Sales:

Month	Sold M'cycles 2012	Sold M'cycles 2013	Sold M'cyles 2014	Sold M'cycles 2015
January	645,863	646,082	579,361	502,783
February	666,136	649,434	679,086	556,091
March	619,678	665,334	725,629	546,169
April	617,508	658,673	727,790	524,775
May	611,251	644,668	739,601	469,630
June	541,918	659,504	750,829	574,714
July	579,077	702,423	534,490	421,838
August	429,236	488,983	609,198	622,089
September	620,499	675,902	706,938	603,102
October	626,901	714,264	675,652	602,882
November	621,224	687,329	582,331	535,682
December	485,166	551,283	556,380	520,400
Total	**7,064,457**	**7,743,879**	**7,867,195**	**6,480,155**

Sources: AISI & Astra International