

Record Car Sales Defy Pessimism in Indonesia

Automotive retailers have posted record car sales for July despite the introduction a month earlier of new rules requiring purchasers to make higher down payments, industry data show. Car sales in July hit 103,219 units, beating the previous monthly sales record of 101,743 units in June last year, data from the Association of Indonesian Automotive Manufacturers (Gaikindo) showed. The July 2012 figure was 16 percent higher than that for July 2011, when car sales stood at 89,056 units. The latest figure brought total sales for this year to 638,264 units, up 26 percent from the same January-July period in 2011. Gaikindo chairman Sudirman Maman Rusdi said the increase in sales last month was due to customers anticipating Idul Fitri, which marks the end of the Muslim fasting month. Traditionally, Indonesians visit relatives or return to their hometowns during Idul Fitri, boosting demand for vehicles, especially passenger cars. In the first seven months of the year, Toyota remained the most favorite brand, booking sales of 238,584 units. Daihatsu came second with 94,314 units. Toyota held a 37 percent domestic market share, with Daihatsu on 15 percent. Gaikindo is comprised of 42 automakers, including Astra International, Toyota Astra Motor and Daihatsu Astra Motor. Astra's group of companies controls 51 percent of the automotive market. Sudirman admitted the impact of the new down payment regulation, which the industry opposed on the grounds that it would hurt sales, was not apparent in the latest data. "The impact may be felt in September, because until August, sales will be pretty much affected by Idul Fitri," he said. Idul Fitri last year fell at the end of August. The government introduced a rule in mid-June requiring car buyers make a minimum down payment of 25 percent for loans from financing companies and 30 percent for loans from banks. It was introduced to curb excessive lending for vehicle purchases. Loans typically account for 70 percent of car purchases in the country. Car sales in Indonesia are forecast to reach 875,000 units this year, similar to the figure last year but well below the original target of 1 million. Johnny Darmawan, president director of Toyota Astra Motor, said that in the absence of the new down payment rules, Gaikindo was confident car sales would have reached 1 million this year. Indonesia last year sold 894,164 cars, with passenger cars contributing around 500,000 units. Jongkie Sugiarto, a deputy at Gaikindo, said the new down payment rule would hurt sales of cars priced at less than Rp 200 million (\$21,000). Cars in that price range now account for about half the market. The increase in cars on Indonesian roads exacerbates the congestion that already afflicts many major cities. In Jakarta and nearby Bogor, Tangerang and Bekasi, the number of cars circulating is estimated at 2.7 million, while the number of motorcycles sits above 10 million. Meanwhile, road expansion is slow. Djoko Setijowarno, a transportation analyst at Universitas Soegijapranata in Semarang, urged the government to improve public transportation infrastructure. Separately, Industry Minister M.S. Hidayat forecast a higher volume of car sales in Indonesia by the end of the decade. He said Indonesia would be able to sell 2 million cars in 2019-20, but at least \$2 billion worth of investment is needed to ramp up production. Indonesia's \$813 billion economy expanded by 6.5 percent last year, and the government has forecast growth this year at 6.5

percent. Several multinational carmakers have committed to invest in Indonesia to ramp up production in the next three years. According to Gaikindo, the recent investment pledges totaled Rp 20.7 trillion. Among those expanding local production are the Japan-based Toyota Motor, Daihatsu Motor, Suzuki Motor, Nissan Motor, Honda Motor and Europe-based Bayerische Motoren Werke (BMW). Gaikindo projected the production capacity of Indonesia's automotive companies could reach 1.43 million units in 2014. Most car production in Indonesia involves assembling activities, with carmakers importing components from overseas. In Southeast Asia, Thailand remains the base for car manufacturing, in part because in recent years the country has been the region's biggest automotive market. Indonesia is rapidly advancing on both production and consumption of vehicles.