



INDONESIA CONSTRUCTION REPORT

The Big 5 Construct Indonesia international building and construction exhibition will launch from 7 – 9 May 2015 at the Jakarta International Expo.

In January 2015 the event commissioned a report on Indonesia's construction industry outlook.

For more information
on the event please visit
www.thebig5constructindonesia.com

INDONESIA COUNTRY REPORT – JANUARY 2015

Introduction

Indonesia is an archipelago nation of thousands of islands spread over some 5400km of South East Asia. From one end of the country to the other, it is rich in mineral resources, realised and potential tourism, developing infrastructure needs and, most of all, people.

With 252m citizens, it has a young and vibrant population, 142m of whom are under 34. By 2025 some predict it will have the fourth largest working population in the world, at just over 185m¹.

Since 2005 Indonesia has experienced a spike of growth across all kinds of development indicators. From an 11 per cent-plus boost in internet penetration – tricky given the country's geography – to the super-sized surge in the number of mobile phone users, to the point where there is now more than one subscription per person², Indonesia has made gains from the steady to the staggering.

Improving levels of gross domestic product (GDP) and gross national income (GNI) have helped to build and strengthen Indonesia's middle class, much like the earlier growth seen in China. GDP has risen from \$285bn in 2005, to \$868bn in 2013³, although it has hit a plateau since 2011. GNI too has climbed from \$1230 in 2005, to \$3580 in 2013⁴, without suffering the same stall.

A new president, Joko Widodo, was elected in 2014, taking office in October on promises of change and reform. Real GDP growth for 2015 is predicted to nudge past six per cent, in part driven by perceived optimism about the new administration's more business-friendly economic policies⁵.

Market factors

Among the Association of South-East Asian Nations (ASEAN) economies, Indonesia is performing well when it comes to catching the eye of international investors. In 2013 it attracted some \$18.4bn in foreign direct investment (FDI), ranking it second among the ten member states. Only Singapore did better, attracting some \$60.6bn; but the island state accounts for nearly half of ASEAN nations total of \$122bn in FDI⁶.

¹ New Mega Trends in Indonesia, Frost & Sullivan. <http://www.frost.com/sublib/display-report.do?id=P6E3-01-00-00-00>

² World Statistics Pocketbook (UN)

³ <http://data.worldbank.org/indicator/NY.GDP.MKTP.CD/countries/ID?display=graph>

⁴ <http://data.worldbank.org/indicator/NY.GNP.PCAP.CD/countries/ID-4E-XN?display=graph>

⁵ <http://country.eiu.com/article.aspx?articleid=1202174504&Country=Singapore>
&topic=Economy&subtopic=Forecast

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http://www.asean.org/images/resources/Statistics/2014/SelectedKeyIndicatorAsOfApril/UpdatedAug/table1_as%20of%20August%2014_R.pdf

A decade of change and investment has propelled Indonesia into a top spot among the economies of South East Asia; and nothing says you have a burgeoning middle class like the arrival of Ikea. The Swedish retail giant, which opened its first store in Jakarta in October 2014, reckons it has a customer catchment of some 9.5 million people who can afford to shop there. Looking ahead, the company has calculated that by 2030 more than 50 per cent of Indonesians will earn more than \$5000 per annum⁷.

Urbanisation's influence

Indonesia's urban population is growing at an average annual rate of 2.5 per cent, more than twice the rate of the country's overall population growth⁸. This pattern of urbanisation, both through migration and natural expansion, is expected to continue to drive growth in the construction sector⁹. In major urban centres the pace of change is even more pronounced, with five key metropolises – Jakarta, Surabaya, Bandung, Medan and Semarang – all predicted to experience a population growth of 3.9 to 4 per cent between 2010 and 2020¹⁰.

Thanks to this long-term pattern of urbanisation, observers are predicting the value of Indonesia's residential and non-residential construction work to hit \$69.8bn by 2017, with year-on-year growth likely to be between 8 and 9.5 per cent¹¹.

Indonesia's thirst for infrastructure improvement is expected to see the sector continue to contribute around 50 per cent of the total construction industry value for the foreseeable future. Observers predict it will hit a value of around \$75.9bn by 2017, at a growth rate of just touch over 7 per cent over the next three years¹².

A comprehensive planned programme of improvement is outlined in an influential and far-reaching government masterplan: *Acceleration and Expansion of Indonesia Economic Development 2011-2025*. More commonly known as MP3EI¹³, when announced in 2011, it included 28 public private partnership projects in the transport sector alone. The document outlining the plan is comprehensive and deserves a place in any business planning process, but like any long-range outline, it is subject to change.

However, as the country looks ahead to its future needs, infrastructure investment in Indonesia is expected to reach \$559bn by 2030. Transportation

⁷ <http://www.ft.com/intl/cms/s/0/69b70498-5386-11e4-929b-00144feab7de.html#axzz3NzFgcvRH>

⁸ World Statistics Pocketbook 2014 (UN)

⁹ Ipsos Business Consulting – Construction Solutions
<http://www.ipsosconsulting.com/en/Construction>

¹⁰ Ipsos Business Consulting – Construction Solutions
<http://www.ipsosconsulting.com/en/Construction>

¹¹ Ipsos Business Consulting – Construction Solutions
<http://www.ipsosconsulting.com/en/Construction>

¹² Ipsos Business Consulting – Construction Solutions
<http://www.ipsosconsulting.com/en/Construction>

¹³ http://www.gbp-international.com/fileadmin/user_upload/media/News/Economic_Corridor.pdf

infrastructure will be expanded to support further economic growth and more than 70 per cent of the country's investment has been set aside for road and rail sectors, within transportation¹⁴.

Ambitions on this scale need funding and Indonesia has sought partners to help get projects started. As with other nations in the region who are funding major upgrades, China has proven to be a source of cash and investment. For example, China Communication Construction Company formed a joint venture with PT Jakarta Monorail, for the design and build of a new transit system for the country's crowded and congested capital. The Chinese state-owned company agreed to invest \$1.5bn in the monorail project and fund the construction of a monorail assembly plant¹⁵.

The monorail assembly plant will add to a local manufacturing industry which is expected to create a total output worth \$920bn, and contribute nearly 20 per cent of Indonesia's GDP, by 2025¹⁶. It also points to a trait seen in other developing economies: companies that want to win business may stand a better chance of doing so if they commit to offering jobs and opportunity to Indonesians.

Inflation pressures

Like other economies enjoying a period of growth, the market has experienced price increases. These have had a direct impact on the economy, the construction sector included, so much so that the government stepped in and banned the export of mineral ores¹⁷ at the start of 2014. Indonesia's inflation finished at 8.36 per cent year-on-year in 2014, influenced by food price rises and the ongoing reform of onerous energy subsidies¹⁸.

In mid 2014 Rider Levett Bucknall, a consultancy, was predicting a 3-to-7 per cent increase in building tender prices in Jakarta¹⁹. The company also tracked changes in ten key construction material prices, nine of which increased between quarter one of 2013 and 2014. These increases were also aligned with a period of weakening of the Indonesian Rupiah against the US dollar. The biggest percentage increases were seen in the building basics of timber sawn formwork and clay bricks; structural steelwork was the only material to see its price soften during the same period.

The size and strength of the Indonesian market for construction materials is already having an impact on global suppliers. For example, AkzoNobel, a coatings

¹⁴ New Mega Trends in Indonesia, Frost & Sullivan. <http://www.frost.com/sublib/display-report.do?id=P6E3-01-00-00-00>

¹⁵ <http://blogs.ft.com/beyond-brics/2014/08/19/guest-post-chinas-infrastructure-boom-to-be-exported-to-asia/>

¹⁶ New Mega Trends in Indonesia, Frost & Sullivan. <http://www.frost.com/sublib/display-report.do?id=P6E3-01-00-00-00>

¹⁷ <http://www.ft.com/intl/cms/s/0/a1fd8b5a-561b-11e4-bbd6-00144feab7de.html#axzz3NzFgcvRH>

¹⁸ <http://www.bi.go.id/en/iru/government-press-release/Pages/Inflation-December-2014.aspx>

¹⁹ <http://rlb.com/publications/indonesia-report-june-14/>

company, offset weak demand in its European home markets through more vibrant activity in Asia, including Vietnam, India and Indonesia²⁰.

It's an outlook reinforced by other parts of the industry. Aecom, a consultancy, predicts the strongest construction spending growth, through to the end of the decade, will be seen in China, India, Vietnam and Indonesia²¹. This places Indonesia among the powerhouse economies of the wider Asian region and the world. Aecom also notes that the near-term focus will be on China and Indonesia.

This viewpoint is supported by forecasts for construction spending growth in the country. Estimated at 5.2% for the period 2012-2017, Indonesia is firmly among the globe's top ten largest growing construction markets²². This figure, from quarter four in 2013, also places it among the globe's 20 fastest growing construction markets.

Expert popular opinion supports Indonesia as a centre for growth opportunity. In an industry sentiment survey conducted by Aecom, respondents put the country among the top three in the Asian region for size of construction market, they also characterised its profitability as 'unchanged' or 'increasing'²³.

Crucially more than 80 per cent of respondents saw the construction market in Indonesia as 'increasingly attractive to foreign suppliers of construction services'. Indonesia led the pack of nine countries considered in the survey, which included other heavyweight market contenders such as China, Malaysia and Thailand²⁴.

Jakarta was assessed as the city with the fastest growing construction market in Asia, while it came second in terms of potential profitability. Indonesia as a whole ranked second for profitability and first for speed of growth.^{25, 26}

Challenges ahead

While there is no doubt that Indonesia represents a country of great opportunity for companies with interests in the construction sector, there are challenges too.

²⁰ <http://www.ft.com/intl/cms/s/0/fd97bd4a-8aa6-11e4-be0e-00144feabdc0.html#axzz3NzCyGFUF>

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http://www.aecom.com/deployedfiles/Internet/Geographies/Asia/Downloads/Asia%20Construction%20Outlook_2014.pdf

²² https://www.ihs.com/pdf/IHS_Global_Construction_ExecSummary_Feb2014_140852110913052132.pdf

²³

http://www.aecom.com/deployedfiles/Internet/Geographies/Asia/Downloads/Asia%20Construction%20Outlook_2014.pdf

²⁴

http://www.aecom.com/deployedfiles/Internet/Geographies/Asia/Downloads/Asia%20Construction%20Outlook_2014.pdf

²⁵ https://www.ihs.com/pdf/IHS_Global_Construction_ExecSummary_Feb2014_140852110913052132.pdf

²⁶

http://www.aecom.com/deployedfiles/Internet/Geographies/Asia/Downloads/Asia%20Construction%20Outlook_2014.pdf

The generally resilient economy is vulnerable to fluctuations in the price of key commodity exports, notably coal, palm oil and rubber²⁷. Some analysts believe the country is in need of more 'engines' for domestic growth. The good news is construction may be one of them, at least in the medium term. The level of infrastructure required to make the improvements the country believes it needs could very well keep contractors and suppliers busy for decades.

As growth continues, competition for professional talent within the construction industry will become intense. Companies that offer skills development and employee education may find themselves in a stronger recruitment position. A period of sustained wage increases is likely to accompany the competition. Early movers, with a clear plan, will be best positioned to recruit and retain the people they will need to sustain success.

About the report

Marlow McGuinness Ltd prepared this Indonesia country report for The Big 5 Construct Indonesia, in January 2015.

The report uses information and data from the public domain and cites sources throughout. Where possible secondary sources were used to qualify the information provided, but, naturally, not all figures agree and forecast estimates, in particular, vary. Readers are encouraged to consult the extensive references provided for further detail.

Those wishing to receive the freely available source material in full can write to hello@marlowmcguinness.com to request a complimentary 'Indonesia research pack'.

²⁷ <http://blogs.ft.com/beyond-brics/2014/09/29/guest-post-pressure-mounts-on-indonesia-as-global-liquidity-tightens/>