

Graphic: Solarpraxis AG/Harald Schütt

Sharp increase in demand

Market survey: Renewable Analytics' survey of European dealers in the photovoltaics industry indicates that the market is in seventeen percent oversupply.

Solar Industry: supply vs. demand – January 2008
Source: Renewable Analytics

Renewable Analytics started conducting a survey of the leading European dealers in the photovoltaics industry in June of 2008. At this point, most of the leading dealers and project developers are participating in the survey. RA welcomes new participants. The graph above depicts the balance of supply and demand, which has changed significantly in the last seven months.

In June 2008 it was very difficult to buy modules due to the strength of the Spanish market. The market continued to be strong into September due to strength from the German market,

but then began to shift. In January 2009, the average response to the dealer survey was that the market is in 17 percent oversupply. At RA, we actually think it is worse than 17 percent because there is very little demand in January 2009, when Germany's cold weather makes installations difficult.

The dealers and project developers surveyed almost universally believe that the significantly lower prices will result in a sharp increase in demand due to higher project IRRs (internal rates of return). The research team of Renewable Analytics agrees with this conclusion.

The key question is "What is the elasticity of demand?" In other words, how much will volumes increase based on a given price reduction? Our estimate for 2009 is that module pricing will decline by 15 to 30 percent, which will result in a two to four percent increase in project IRRs in Germany (after accounting for the FIT reduction). Though the global economy is currently in a deflationary cycle, we believe that a low-risk return of ten percent is quite attractive.

Falling prices

Elasticity of demand does not have an overnight impact, as it naturally takes time for buyers to make a decision, and installations have a four to twelve week lead time, even at the residential level. Our research findings indicate that the residential and small commercial markets will respond strongly to the lower pricing. One area of the market where the outlook is less clear is large projects which require syndicated financing. In 2008 it was easy for a bank to syndicate the financing for a project across numerous banks. Today, however, banks do not have confidence that other banks will participate, so the process needs to be managed in a more hands-on way.

Certainly the lower silicon and module pricing drives the industry toward grid parity a lot more rapidly than was previously expected. We believe there will be a strong cycle in the 2010 to 2012 time frame as the industry crosses grid parity. ♦

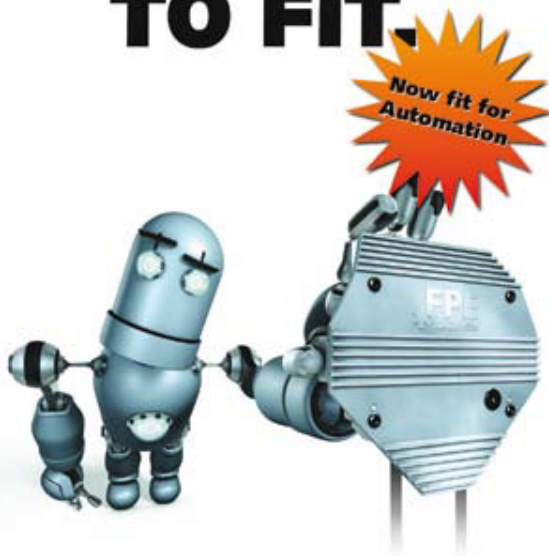
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Brad Meikle is a founding partner of Renewable Analytics, a supply chain research firm focused exclusively on the photovoltaics industry.

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