

# Solar Supply and Demand Out of Alignment

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In 2010, excess capacity and aggressive solar module production led to rapid market expansion. For many manufacturers, there was an acceptable corporate trade-off between revenue growth and lower margins. The 2011 story is quite different, because strong end-market growth has not been in the equation this year. Only those manufacturers that have been able to utilize a low-cost base to take market share have been able to deliver acceptable bottom line performance.

The 2012 picture looks even more challenging as the supply/demand situation is likely to remain out of balance, and the margin headroom that existed at the beginning of 2011 will not be present at the beginning of next year.

Despite weaker than anticipated shipments in 1H?11, most manufacturers have maintained Y/Y growth guidance of more than 30%. The most bullish guidance is being offered by Tier 1 Chinese manufacturers who, despite missing guidance in Q1?11 and Q2?11, have maintained their full year 2011 outlooks. This contrasts markedly with Western module manufacturers who have had to cut production and shipment targets in the face of declining ASPs and increasing inventories. Whether manufacturers can meet their 2H?11 shipment guidance will primarily depend on the greater market response to price declines and the procurement strategies of downstream companies.

Meanwhile, production capacity growth in 2012 is forecast to remain strong. Should production levels follow a similar utilization path as this year, total global production would be more than 37 GW in 2012, an approximate 50% increase over the expected 2011 level. A significant part of the capacity increment is being financed by the Chinese government and development banks, which will incentivize more production than might otherwise be pursued through a strict assessment of end-market needs.

A persistent oversupply situation into 2012 will maintain the downward pressure on prices and margins to the point where even the lowest cost producers could see negative bottom lines next year. Companies will be tested by their ability to rapidly access the undeveloped demand potential that will emerge as some regional market segments reach grid-parity. However, the pace of end-market growth now depends as much on regulatory, siting, transmission and electricity rate structures as system price levels.

Declining prices increase corporate pain in the short-term, but will be highly beneficial to the survivors. With module ASPs approaching \$1/W in many markets, solar PV is being reexamined as an affordable option for on- and off-grid energy generation. Regional markets such as SE Asia, Latin America and Africa have seen an uptick in solar activity. Lower prices mean that attention is paid to locations where high electricity prices are making solar a compelling solution, rather than sales strategies that have primarily been directed toward following the most generous incentive policies.

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