S&P sees tough times ahead for telecom

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Slow growth is expected in the U.S. telecommunications both this year and next, credit raters Standard & Poor's said Monday.

S&P reported that stock prices for telecom service providers will remain flat over the near term, adding that "although the largest carriers are expected to generate sufficient free cash flows over this period, S&P's equity research indicates that recent mergers and the high costs associated with fending off newer competitors will make significant stock gains unlikely."

It pointed out that in the first quarter of this year, the top four carriers lost about 5 percent of their access line accounts as customers switched to high-speed DSL service or to cable or wireless phone service. The group added that carriers will continue to lose access lines this year, while providers will need to keep prices for DSL service low to retain customers.

"We believe growth in wireless service should drive the results of the major telecom providers in 2006," said Todd Rosenbluth, senior associate director of equity research services. "Traditional voice services have become a commodity, as evidenced by the decline in average revenue per voice user in this year's first quarter. But data services and overall customer growth should help wireless revenues to rise in the low double digits."