Pay TV industry loses record number of subscribers

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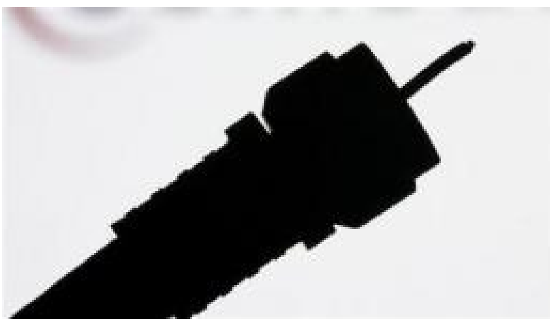

In this July 30, 2008 file photo illustration, a silhouetted coaxial cable is displayed in Philadelphia. The weak economy is hitting Americans where they spend a lot of their free time: at the TV set. (AP Photo/Matt Rourke)

(AP) -- The weak economy is hitting Americans where they spend a lot of their free time: at the TV set.

They're canceling or forgoing cable and satellite TV subscriptions in record numbers, according to an analysis by The Associated Press of the companies' quarterly earnings reports.

The U.S. subscription-TV industry first showed a small net loss of subscribers a year ago. This year, that trickle has turned into a stream. The chief cause appears to be persistently high unemployment and a housing market that has many people living with their parents, reducing the need for a separate cable bill.

But it's also possible that people are canceling cable, or never signing up in the first place, because they're watching cheap Internet video. Such a threat has been hanging over the industry. If that's the case, viewers can expect more restrictions on online video, as TV companies and Hollywood studios try to make sure that they get paid for what they produce.

In a tally by the AP, eight of the nine largest subscription-TV providers in the U.S. lost 195,700 subscribers in the April-to-June quarter.

That's the first quarterly loss for the group, which serves about 70 percent of households. The loss amounts to 0.2 percent of their 83.2 million video subscribers.

The group includes four of the five biggest cable companies, which have been losing subscribers for years. It also includes phone companies Verizon Communications Inc. and AT&T Inc. and satellite broadcasters DirecTV Group Inc. and Dish Network Corp. These four have been poaching customers from cable, making up for cable-company losses - until now.

The phone companies kept adding subscribers in the second quarter, but Dish lost 135,000. DirecTV gained a small number, so combined, the U.S. satellite broadcasters lost subscribers in the quarter - a first for the industry.

The AP's tally excludes Cox Communications, the third-largest cable company, and a bevy of smaller cable companies. Cox is privately held and does not disclose subscriber numbers.

Sanford Bernstein analyst Craig Moffett estimates that the subscription-TV industry, including the untallied cable companies, lost 380,000 subscribers in the quarter. That's about one out of every 300 U.S.

households, and more than twice the losses in the second quarter of last year. Ian Olgeirson at SNL Kagan puts the number even higher, at 425,000 to 450,000 lost subscribers.

The second quarter is always the year's worst for cable and satellite companies, as students cancel service at the end of the spring semester. Last year, growth came back in the fourth quarter. But looking back over the past 12 months, the industry is still down, by Moffett's estimate. That's also a first.

The subscription-TV industry is no longer buoyed by its first flush of growth, so the people who cancel because they're unemployed are outweighing the very small number of newcomers who've never had cable or satellite before. Dish CEO Joe Clayton told analysts on a conference call Tuesday that the industry is "increasingly saturated."

But like other industry executives, Clayton sees renewed growth around the corner. Though his company saw the biggest increase in subscriber flight compared with a year ago, he blamed much of that on a strategic pullback in advertising, which will be reversed before the end of the year.

Other executives gave few indications that the industry has hit a wall. For most of the big companies, the slowdown is slight, hardly noticeable except when looking across all of them. Nor do they believe Internet video is what's causing people to leave.

Glenn Britt, the CEO of Time Warner Cable Inc. said the effect of Internet video on the number of cable subscribers is "very, very modest;" in fact, so small that it's hard to measure.

SNL Kagan's Olgeirson said the people canceling subscriptions behind, or never signing up, are an elusive group, difficult to count. Yet he believes the trend is real, and he calls it the "elephant in the room" for the industry.

Anecdotal evidence suggests that young, educated people who aren't interested in live programs such as sports are finding it easier to go without cable. Video-streaming sites like Netflix.com and Hulu.com are helping, as they run many popular TV shows for free, sometimes the day after they air on television.

In June, The Nielsen Co. said it found that Americans who watch the most video online tend to watch less TV. The ratings agency said it started noticing last fall that a segment of consumers were starting to make a trade-off between online video and regular TV. The activity was more pronounced among people ages 18-34.

Olgeirson expects programmers to keep tightening access to shows and movies online. A few years ago, Olgeirson said, "they threw open the doors," figuring they'd make money from ads accompanying online video besides traditional sources such as the fees they charge cable companies to carry their channels. But if looks as if online video might endanger revenue from cable, which is still far larger, they'll pull back.

"Are they really going to jeopardize that? The answer is no," Olgeirson said.

Already, News Corp.'s Fox broadcasting company is delaying reruns on Hulu by a week unless the viewer pays a $8-a-month subscription for Hulu Plus or subscribes to Dish's satellite TV service. Other subscription-TV providers may join in the future. TV producers and distributors want to discourage people from dropping their subscriptions.

Moffett believes it's hard to separate the effect of the economy from that of Internet video. Subscription-TV providers keep raising rates because content providers such as Hollywood studios and sports leagues demand ever higher prices. That's causing a collision with the economic realities of American households.

"Rising prices for pay TV, coupled with growing availability of lower cost alternatives, add to a toxic mix at a time when disposable income isn't growing," Moffett said.