Will telecoms escape the economic downturn?

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Telcos have recently issued a stream of mixed messages about the potential consequences for their businesses of global economic turmoil. A significant number of major players are adopting an optimistic stance at present, and attempting to minimise the effects of the downturn. The consensus among these telcos is that the true impact of the economic downturn has yet to materialise. A number of questions arise from looking at the public relations statements issued by telcos.

- Are telcos being deliberately overoptimistic in order to bolster investor confidence?
- Are they trying to divert attention from their high levels of debt and substantial ongoing capital requirements?
- Or are they trying to buy for themselves a breathing space in which to formulate their plans, once they have a more accurate picture of demand in the early recession ?

One key area of focus for telcos is cost control; they clearly want to conserve cash at present, either to build up reserves or to service existing debt. Companies that have taken on heavy debt burdens as a result of marked expansion in recent times are finding their survival under serious threat in the current economic situation. Plainly, telcos will be curbing supply-side investments in favour of a more measured investment approach and cost control. Smaller players that are unable to make economies of scale will be unlikely to continue building access networks with duplicate footprints. Investments in next-generation access networks and evolutionary mobile technologies will be more disciplined. Similarly, as in other sectors of the economy, M&A activity will be more selective.

The demand side is more difficult to predict, as telecoms services have never previously been tested in a downturn. The market has changed beyond all recognition since the last recession, in the early 1990s. At that time, mobile was a minority service and POTS was standard on the fixed side. Spend on telecoms, as a share of GDP, demonstrates a relatively consistent downward trend. Given falling GDP, increasing inflation, a shrinking enterprise sector and fear and uncertainty in the consumer market, end-user demand will suffer. The extent to which revenue will fall is more difficult to forecast at present. It is likely to be several months before real market behaviour confirms the level of the downward trend in spend.

ReadWriteWeb published at the end of last year a thoughtful look at how the financial crisis may impact innovation in the online world:
… we're clearly now at a point where the financial problems of the world will have a big impact on where web technology is headed. Indeed, it looks like we've arrived at one of those giant inflexion points - where one web era is usurped by another … now is the time for innovation.
What's Next After Web 2.0 - ReadWriteWeb

There's a lot of stuff I like in this article, particularly the focus on the semantic web, which could be the single most useful web technology for EU governments and companies ever invented, and a clarion call for:

… technologists, entrepreneurs and VCs to take a longer term view of this crisis … Sramana Mitra wrote a great post at Forbes outlining some of the opportunities for innovation … to create technology for education, health care, social security. … Tim O'Reilly [inventor of term Web2.0] has been on a similar mission … His core message is to "work on stuff that matters."
If the US can still easily harvest so many low-hanging fruit in the areas of education and healthcare, how much more of it hangs unpicked across the EU's sclerotic public administrations? And how many solutions are being developed 27 times across the EU, without being shared?
This is not a plea for any regulation-style harmonisation of education or healthcare (XML and other standards means that harmonisation is not necessary for technology to increase efficiencies). It is a plea that those focused on budgets and deficits wake up to where savings can be made without cutting social services or cutting the guts out of the real investments Europe need to make - in education and research.