IDC Expects Canada’s Telecom Market to Face a Significant Revenue Slowdown in 2020 and Beyond

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TORONTO, ON., April 6, 2020 — The global COVID-19 pandemic and the necessary containment measures put in place by governments will substantially impact the Canadian telecommunications services market producing negative growth in 2020 before rebounding in 2021.

IDC Canada expects that the telecom services market will contract by almost C$2 billion with the overall revenue expected to fall to C$47.9 billion – a negative -0.8 per cent decline from a year earlier. As recently as December 2019, we had projected positive 3.2 per cent annual growth for the sector in 2020. By comparison, IT spending in Canada is expected to decline by -5.0 per cent in 2020, according to IDC Canada's most recent forecast estimate.

Canadian Total Telecom Spending Growth for 2020 Revised Down to -0.8% from 3.2% in the Most Probable IDC Canada Forecast Scenario

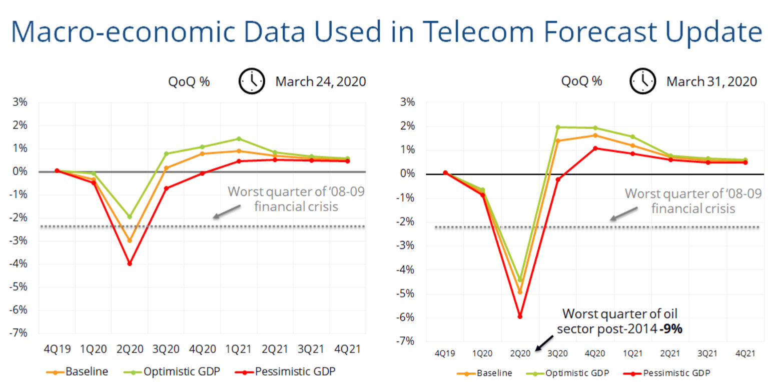
Compared to Canada's IT market, the C$48-billion-dollar telecom services sector has been historically more resilient or “recession-proof,” said Lawrence Surtees, Research Vice-President of Communications at IDC Canada. Even during the 2008-2009 financial crisis, telecom services retained positive annual growth. A decade later, telecom services have become further insulated to crisis as consumers and enterprises are more dependent on these services, especially internet and wireless.

However, with new stringent containment and lockdown measures in place across Canada, resulting in a rapidly deteriorating economic outlook, GDP forecasts have recently been revised down sharply for the second and third quarters of 2020.

The recent composite quarterly GDP forecasts of the five major banks, which is one input underlying IDC Canada's telecom and IT forecast scenarios, now show a steeper quarterly decline than all other recent economic downturns, including the financial crisis of 2008-09, the 1990-1992 contraction and the 1981-1982 recession.

"The impact of the COVID-19 crisis represents the most significant deceleration in ICT spending growth Canada has experienced in modern time" said Lars Goransson, Managing Director at IDC Canada.

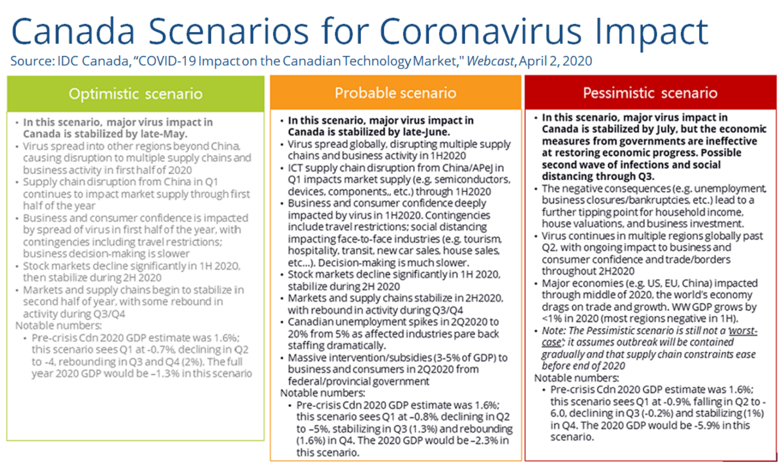
Figure 1



Source: Composite of Canadian Big Five bank economic forecasts

IDC Canada developed three forecast scenarios (optimistic, probable, and pessimistic). "The probable scenario assumes the coronavirus is broadly contained by June. The optimistic scenario, which appears very unlikely, assumes the virus is more rapidly contained, and business and investments recover quickly and accelerate in Q3" said Tony Olvet, Group Vice-President Research, at IDC Canada. "Finally, a pessimistic scenario that considers a less controlled, longer-lasting, virus 'rebound' effect through Q3 and Q4."

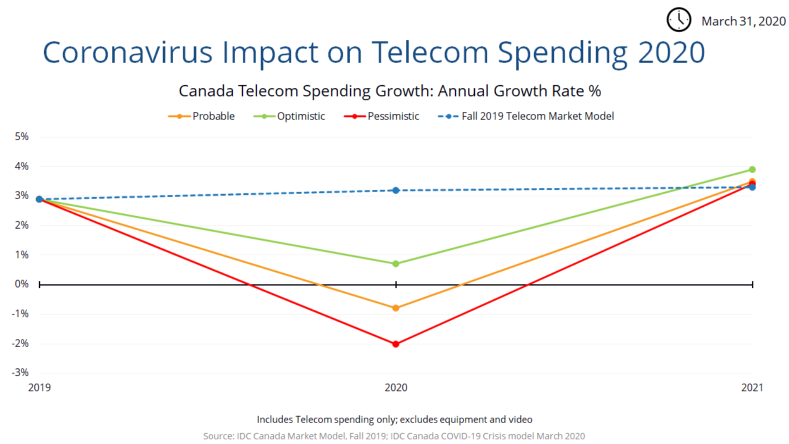
Figure 2



Mandatory self-isolation and social distancing has led to double-digit growth in the number of people working from home and restrictions on business travel has made telecom services of even greater strategic importance to all consumers and enterprises.

However, we anticipate the COVID-19 pandemic will have a greater negative impact on the Canadian telecom sector than that of the 2008-2009 financial crisis, due to massive layoffs and challenges for small and medium businesses that will lead to projected business failures. Hence, we anticipate telecom revenue to decline into negative growth for both our probable and pessimistic scenarios.

Figure 3



In the most probable scenario, IDC projects Canadian telecom spending to decline to -0.8% in constant currency this year, down from our previous forecast of 3.2% growth published at the end of 2019.

The greatest adverse impact on telecom spending forecasts is the projected number of business failures. Small business, of which there are almost one million firms in Canada, are the hardest hit. And several vertical segments are worse off, including airline transportation, energy, manufacturing and hospitality. IDC Canada will summarize these specific impacts in our forthcoming annual five-year forecast report.

In the current pessimistic scenario, IDC Canada expects telecom spending to record a 2.0 per cent decline to C$47.2 billion in 2020.

While it is easy to be distracted by the slightly higher forecast growth rate in 2021, it is worth noting that we estimate revenue from the four primary markets—wireline voice, data, internet and wireless – will contract by almost C$2 billion under our probable scenario for 2020, compared to our previous forecast.

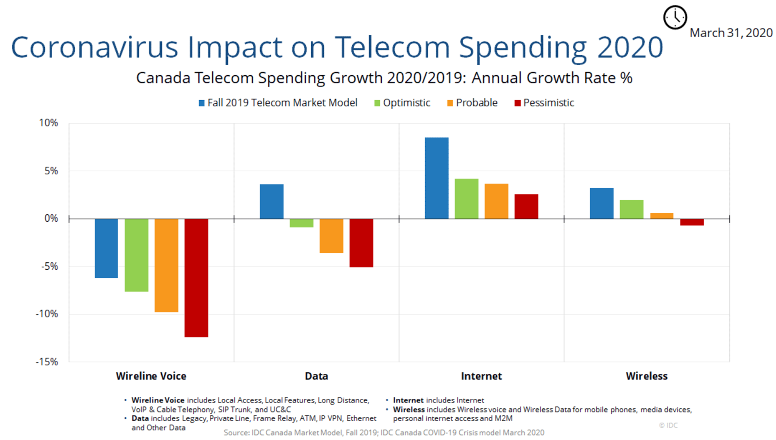
Although we predict all telecom market segments will show reduced revenue from the previous forecast, some positive factors will moderate the downturn such as the exploding need for conferencing, remote collaboration and increased broadband access. Our new probable outlook predicts the wireline voice and enterprise data communications segments to be the hardest hit:

- Wireline voice, which has been a shrinking market, remains the worst-performing segment under all scenarios because of continued wireless and internet substitution. Consumer and enterprise responses to the COVID-19 pandemic may accelerate cost-saving measures such as cord-cutting for some consumers and due to business failures. However, the formerly lackluster long-distance voice segment is already experiencing major revenue gains in the interim from burgeoning double-digit growth of toll-free long-distance use for conferencing.
- Data wide area networking (WAN) services are essential for larger enterprises and are subscribed to on long-term contracts, so this segment is less likely to be affected by temporary events but it’s also most susceptible to business failures. The different growth rates among the three scenarios differ mainly on the number of businesses that

are anticipated to fail to recover due to COVID-19 shutdowns.

- Internet will be one of the most insulated markets during this pandemic crisis as broadband access has become a greater necessity with many people working from home, students taking online lessons, and families being entertained at home. Network providers are experiencing an unprecedented increase in bandwidth/data consumption since the first day of mandatory work-from-home restrictions. However, higher usage does not translate directly to revenue growth due to elimination or expansion of data caps currently provided as temporary relief by most major Canadian Service Providers (ISPs). To meet increased network capacity needs, Canadian ISPs are upgrading their networks to increase available network bandwidth. The costs for this expansion will need to be recovered in 2021. In fact, some smaller ISPs have already served notice that they will still raise monthly prices later this Spring due to increased telecom wholesale costs to manage increased network load.
- Wireless services, which account for almost one-half of telecom revenue in Canada, remain essential especially to customers whose wireless devices are the only means of communication with coworkers, friends and family. However, stringent travel restrictions between Canada and the rest of the world has put an immediate halt to roaming revenue. The loss of roaming revenue will increase as the lock-down persists. The rollout of initial 5G wireless services at the end of this year, however, may help providers to recover some of their costs associated with the pandemic.

Figure 4



We expect the telecom market to get back on track in 2021 provided most businesses return to normal, people return to work, and consumer confidence recovers.

However, the duration of the pandemic crisis poses the greatest uncertainty and will impact the magnitude of its economic and social affects. As containment measures have not yet halted the spread of COVID-19 and the number of people infected with the virus continues to expand exponentially, the downside risks in forecast models increase almost daily.

"In such a rapidly changing environment, it is still too early to assess the overall impact on the Canadian ICT market fully," said Nigel Wallis, Research VP, IoT & Industries at IDC Canada.

Recent announcements that senior federal and provincial government officials anticipate that the quarantine efforts such as school closings and bans on group gatherings will continue until late June means that IDC Canada's optimistic scenario is now unlikely. IDC Canada has extended out the probable scenario by a few weeks – and noted a possible second wave of recurring infections through the third quarter of 2020. GDP and affiliated macro-economic markers have had equivalent reductions.

"Nevertheless, there are areas in which spending will grow," said Meng Cong, Manager, Market Insights & Analytics, at IDC Canada. "Specific solutions such as videoconferencing, intelligent supply, chatbots, and e-learning platforms, among others, highlight how technology can help businesses and societies address these new challenges."

IDC Canada's team will continue to closely monitor the reaction of the ICT markets to the coronavirus crisis through multiple research initiatives: this includes monthly surveys to poll Canadian digital leaders on their organizations' digital investment plans in light of COVID-19 scenarios and forecast scenario revisions. If you are interested in knowing more about this topic, please register now to watch our latest Complimentary Webcast, COVID-19 Impact on the Canadian Technology Market.

To learn more about what to expect in the months ahead and what organizations should do in response to this market turmoil, please visit www.idc.com/ca and IDC’s Global COVID-19 resources microsite at: https://www.idc.com/misc/covid19.

For more information about this press release or to arrange an interview with our analyst team, please contact Cristina Santander at askidc@idccanada.com.

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