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The Specter Haunting Pay TV

This Year Could Mark the First-Ever Annual Decline in Pay-TV Subscriber Numbers, Deepening Cord-Cutting Fears

By MIRIAM GOTTFRIED [CONNECT](#)



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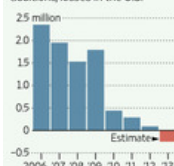
Aug. 14, 2013 2:28 p.m. ET

It may once have been nothing more than a boogeyman keeping pay-TV executives awake at night. But cord cutting might now be worth losing sleep over.

Amid recent declines in pay-TV subscriber additions, many analysts and investors had assumed a recovery in new-household formation would eventually turn things around. That would have shot down the idea that cord cutting—where viewers quit pay TV in favor of watching video over the Internet—was a growing phenomenon.

Screened Out

Pay-TV subscriber net additions/losses in the U.S.



Kevin Spacey, in Netflix's original series 'House of Cards'

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Instead, as more consumers are priced out of the pay-TV market and alternatives such as [Netflix \(NFLX +2.01%\)](#) proliferate, such hopes don't appear to be holding up.

Total video subscribers were down 0.10 percentage point annually in the second quarter, while occupied households grew 0.40 percentage point, according to [UBS](#).

[UBSN.VX -1.56%](#) The U.S. pay-TV market lost about 208,000 subscribers in the first

half of 2013, against a net gain of 27,000 in the first half of 2012. As a result, UBS estimates the industry will finish the year with a net loss of 250,000.

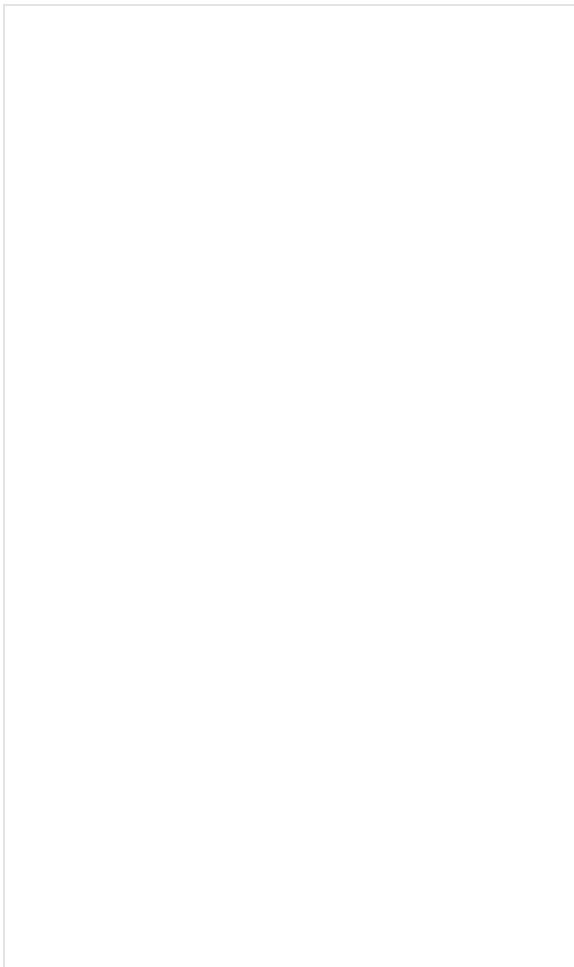
Granted, these are small numbers in the context of 104 million U.S. pay-TV households and cord cutting could falter, especially if the jobs market continues to improve. Still, if UBS's estimate holds, 2013 would mark the first annual decline in pay-TV subscribers ever.

If such declines accelerate, this could put more pressure on pay-TV margins that are being squeezed already by escalating programming costs. That would make cable and telecom providers more reliant on their broadband offerings for growth and could cause satellite firms, which lack that offering, to shrink.

Cord cutting may also start pushing TV networks, which price contracts based on distributors' subscriber numbers, closer to online video services or Big Tech companies trying to enter TV, such as [Google \(GOOG +0.28%\)](#) or [Apple \(AAPL +0.77%\)](#)

And the pace of cord cutting appears to be accelerating. About 641,000 new subscribers can be attributed to new household formation over the past 12 months. Based on the number of net subscriber additions, that means about 963,000 people quit pay TV in that period, according to Moffett Research. That compares with 597,000 subscribers from new household formation and about 455,000 dropping pay TV in the preceding 12-month period.

Not all pay-TV providers are suffering equally. Telecom companies [AT&T \(T -0.55%\)](#) and



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Verizon added a net 373,000 video subscribers combined in the second quarter, up from 275,000 a year earlier. Cable losses remained flat at 615,000. Meanwhile, satellite providers [Dish Network](#) (DISH -0.90%) and [DirecTV](#) (DTV +0.11%) lost 162,000 subscribers, up from 62,000 a year ago—perhaps the most worrying figure considering those companies' lack of a broadband cushion.

Disruptive technologies such as Google's new Chromecast product or startup Aereo seem likely only to hasten the pace of cord cutting. As more consumers quit pay TV in favor of Internet video, today's trickle may eventually start to look more like the mainstream.

Write to Miriam Gottfried at Miriam.Gottfried@wsj.com

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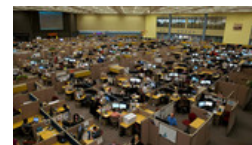
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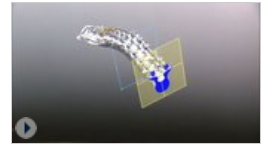
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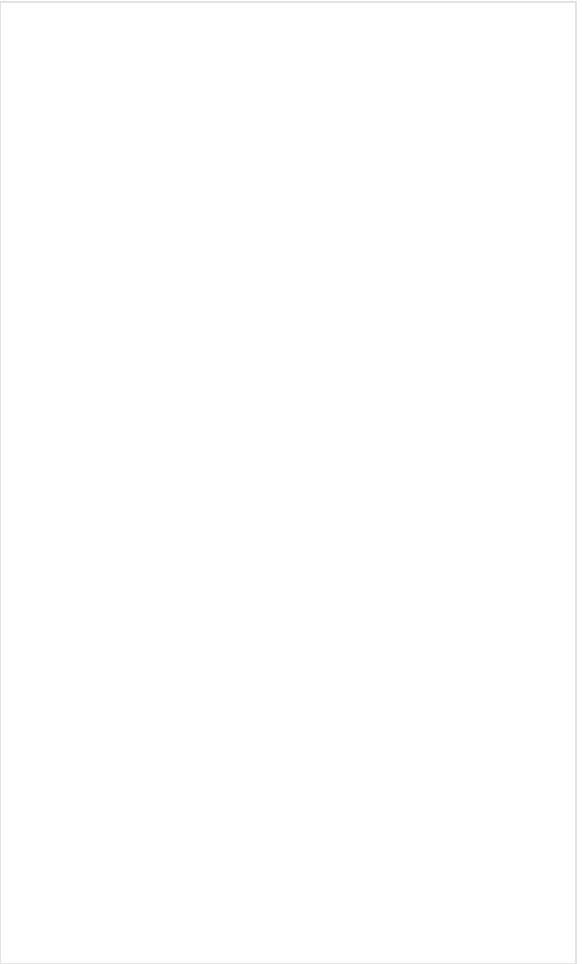
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