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Results from Holliday's Holiday Horoscope – 2006

A Grading of Last Year's (2006) Forecast

Every year I prepare my forecasts for the following year as a gift to IGI's customers. My latest effort is the forecast for 2007, and it is published elsewhere on the IGI web site. However, before turning to a reading of this year's new forecasts, I invite you go back and see how we did in past years.

For the year 2003, I was slightly over half right – a fairly respectable batting average! In 2004, we exceeded that mark! For the 2004 forecasts, we averaged a grade of 72.5%. Last year we did even better with a mark of about 85%! This year, 2006, we did very well again achieving a grade of 77.5%. The following are the original forecasts and my grading of each.

We invite you to grade the forecasts yourself and to let Dr. Polishuk (ppolishuk@igigroup.com) or me (c.holliday@ieee.org) know what you think about the grading.

1 **Capital Expenditures** –We a forecasted a 10% increase (2006 over 2005) in capital expenditures by the major telcos, cable companies and IXCs.

Although year-end results won't be in for another month or so, it appears this forecast was low. The major telcos and cable companies appear to be on track to spend about 14% more capital in 2006 than they did in 2005. Part of this is probably due to high expenditures to replace plant destroyed by Katrina, and part of it is higher than expected expenditures for the FTTH programs. **Grade 50%!**

2 **High-speed Access –** <u>For 2006, we predicted an even faster growth rate with h-s access achieving 48% - 50% penetration by year's end.</u>

The actual results appear to be (again, we have to interpolate from 3rd quarter numbers) a penetration rate of about 49%, right in the middle of our forecast. **Grade 100%.**

3 **High-speed Access, Part II –**The cable companies have held as much as a two to one edge in h-s accesses over the telcos, but the telcos have been catching up quickly. <u>For 2006, we predicted that this trend would continue, with the telcos achieving parity (50-50 including FTTP) by the end of the year.</u>

The actual results appear to be about 54% to 46%, a strong improvement from the telcos' point of view, but again somewhat less than we forecast. **Grade 75%.**

4 **Network Traffic –** <u>High-speed Internet growth and increases due to the rapid expansion of FTTP with video, add up to faster network growth – we predicted it would be as much as 150% for 2006.</u>

While it cannot be proven, we feel that at least this is an overstatement of the Internet's growth rate. Our recent report ("Internet Growth -2006") suggests that the growth of backbone traffic – 2006 over 2005 – was about 40-50%. **Grade 25%.**

5 **Mergers –** <u>We predict that either one or more of the large, traditional telecom vendors will be involved in a major merger, or will leave the US market.</u>

Actually, as every one knows, Lucent and Alcatel merged as predicted! **Grade 100%**

6 **Mergers Part II –** While we did not predict Google would take over an RBOC (at least not this year), <u>we did predict that these companies (Google, Yahoo, Microsoft, etc.) would have much more active participation in the telecom market place, and by the end of the year one or more would begin to be viewed as more competitor than customer</u>.

In fact, Google has been participating in the telecommunications business strongly this year, and is beginning to look like a competitor in this area. – **Grade 100%.**

7 **Regulation –** We forecasted that <u>the network access sharing rules will continue favoring the incumbent carriers; that the Internet will continue untaxed; and that any prospective telecom vendor merger will be allowed.</u>

The regulatory bodies have allowed the Lucent – Alcatel merger, and the other items are as forecast. – **Grade 100%.**

8 **Network Modernization –** <u>We predict a definitive movement towards a NGN in 2006.</u> <u>This program will be based on elements like ROADMs, next generation DWDM, next generation SONET and optical switches.</u>

This has taken place with a number of new networks and network upgrades beginning.

– **Grade 100%.**

9 **ROADMs** – <u>The RBOCs will begin to deploy these elements in metro networks, and the IXCs and cable companies will continue to use them in long haul networks. We predict that there will be substantial deployment of ROADMs in 2006.</u>

ROADMs (or as we say in Texas, "Rode 'ems.") have become a standard requirement in every RFP and are rapidly becoming a staple of our networks. – Grade **100%.**

10 **FTTP –** <u>For 2006, we predicted that SBC would enter the FTTP arena (with their version of the facility design) and will be pursuing a strong deployment route by the end of the year and that BellSouth will begin a similar program (to SBC) by the end of the year.</u>

AT&T (SBC) has begun their Project Lightspeed program, but it certainly is not yet in the nature of a "strong development." BellSouth has not yet fielded a non-test bed offering. – **Grade 25%.**

Total grade 77.5%! What did you grade them?