Forecast Analysis: IT Spending, Worldwide

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Initiatives: Technology Market Essentials

The banking crisis of early 2023 won't have long-lasting effects on IT spending. Slowing inflation rates and economic growth are expected in 2023, but IT spending growth remains strong as currency headwinds turn into currency tailwinds pushing the 5% constant currency growth to 5.2% in U.S. dollars.

Overview

Key Findings

- Inflation has reduced consumer purchasing power and caused consumers to shift away from device purchases while leaving communications service spending intact.
- The short-lived and relatively small market wobble created by the insolvency of Silicon Valley Bank, Signature Bank and most recently First Republic Bank has run its course.
- Enterprises and governments are facing similar challenges — higher borrowing costs, skills shortages, cloud pricing increases and supply chain disruptions — leading to hesitancy with new projects and reevaluation of ROI for ongoing and proposed projects.
- Current economic turbulence will change the context for technology investments through 2023, increasing spending in some areas and accelerating decline in others, but not materially impacting the overall level of technology spending.
- CEOs and CFOs who view technology as a competitive advantage, rather than a cost, will continue to increase spending on digital business initiatives.

Analysis

The Turbulent Economy and New Challenges

Turbulence describes unstable movement, and by extension, economic turbulence is unstable movement in the economy. Instability creates uncertainty that delays decisions, reorders priorities and creates hardship, all of which change the context of consumer and business decisions.

The current economic turbulence is being fed from multiple sources, which include inflation, interest rates, public policy, digital sovereignty, supply chain constraints, international conflict and COVID-19. By 2024, new challenges of dealing with government debt, high interest rates, and other deleterious effects of having fought the pandemic and inflation will also emerge.

With these challenges comes an often overwhelming amount of uncertainty, which is compounded by the number of overlapping causes and their varying duration. This uncertainty is most often materializing as increasing hesitation among CIOs. They hesitate to sign new contracts, commit to long-term initiatives or take on new technology partners.

In 2022, price increases from most cloud vendors on many cloud products and services occurred. Certainly increased costs of delivery — from the rising cost of energy and wages — played a role, but opportunism cannot be ruled out in all cases. The combined effect of these price rises on the CIO has been a reappraisal of their cloud use as well as their cloud strategy. Starting in late 2022 and expected to run throughout 2023, CIOs launched internal projects aimed at optimizing the use of existing cloud products and services. These projects accelerated the adoption of software and services aimed at configuration and monitoring of cloud environments and in many cases led to renegotiations with existing cloud vendors. In many cases, cloud vendors have been proactively offering optimization services as well as switching clients to products, services and offerings more suited to their clients' current needs.

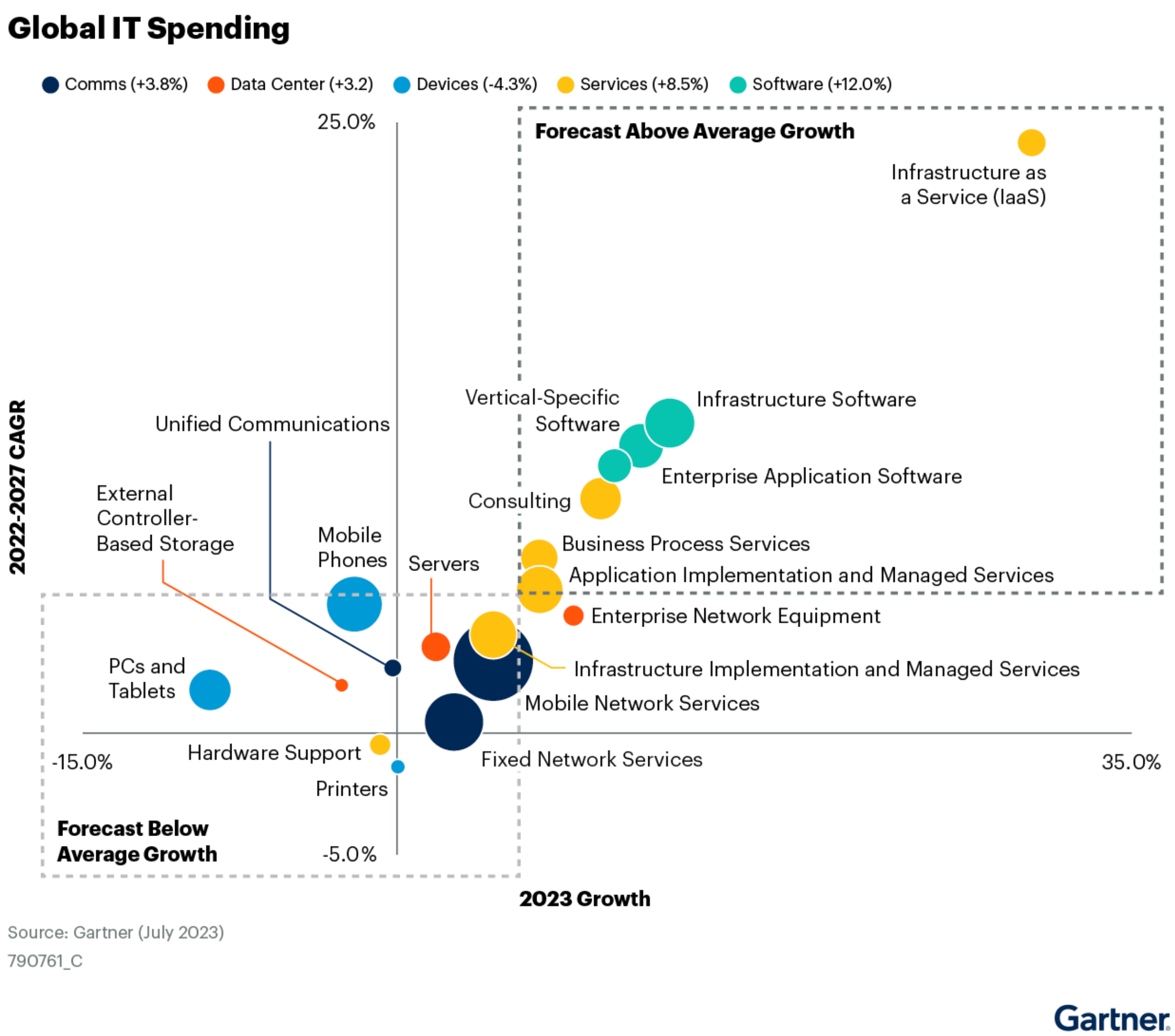
CIOs have many priorities to balance simultaneously:

- Use digital technology to transform the company's value proposition, revenue and client interactions.
- Evaluate cloud-first for new initiatives while maintaining operational on-premises environments.
- Use digital technology to realize operational efficiency and cost savings.

- Expand the operational landscape to include hybrid work, remote and edge environments.
- Upskills/reskill existing IT staff, hire new IT staff and rebalance the use of external service provision.

This balancing act that CIOs are performing creates dichotomies in spending, which are evident in global IT spending (see Figure 1). There is sufficient spending within data center markets to maintain the existing on-premises data centers, but new spending has shifted to cloud options (including IaaS, which is expected to grow at a 27.3% compound annual growth rate [CAGR] from 2021 through 2026).

Figure 1: Global IT Spending



Further, during the height of the pandemic lockdowns, employees had technology refreshes of tablets, laptops and mobile phones, as did consumers driven by remote education. Consequently, these markets now suffer as technology refresh rates lengthen and these assets get used a little longer. The split of technologies being maintained versus those driving the business is evident in their position relative to overall average growth.

Enterprises — most notably the Agile Leaders, Fast Followers and Disciplined Followers (see Enterprise Technology Adoption Profile Self-Assessment) — will use digital technology primarily as a means to reshape their revenue stream, including:

- Adding new products and services
- Changing the cash flow and value proposition of existing products and services

This trend is feeding the shift from buying technology to composing and assembling technology to meet specific business drivers, which is foundational to the growth of cloud over on-premises for new IT spending. However, starting in 2022 and continuing in 2023, the more traditional back-office and operational needs have also been added to the digital transformation project list to realize operational efficiency, cost reductions or simply cost avoidance.

The Banking Crisis That Wasn't

The short-lived and relatively small market wobble created by the insolvency of Silicon Valley Bank (SVB), Signature Bank and most recently First Republic Bank has run its course. It is unlikely to cut off media speculation on "who is next," but it will not have any lingering deleterious effects on IT markets.

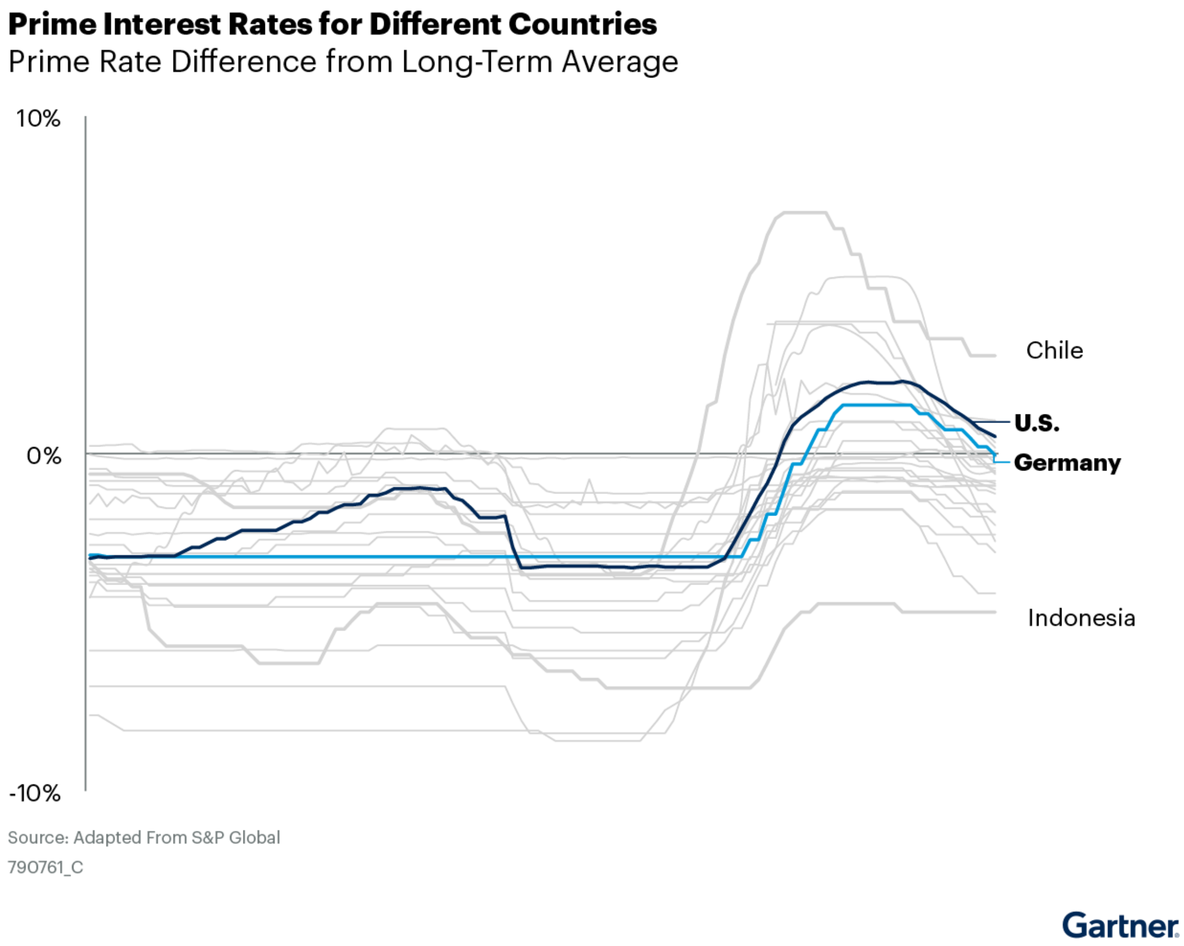
Gartner conducted a rapid response pulse survey [1] 15 through 22 March 2023 with more than 100 business and technology leaders from financial services organizations in the aftermath of the SVB collapse (see Financial Services Pulse: What Industry Leaders Say About the Collapse of Silicon Valley Bank). Respondents did not expect recent bank failures to present a major disruption to their businesses, with 82% believing the failures to be either slightly disruptive or not disruptive at all. The negative impact that executives are most concerned about is declining customer trust in the financial system as a whole, selected by 58% of all respondents. Accordingly, those 58% of all respondents say that their top planned actions are communicatory in nature, and in general, respondents' plans contain no actions that would reduce or impact overall IT spending.

Enterprise IT Spending Is Recession-Proof

Central banks are coming to the end of quantitative tightening — prime interest rates in only a few countries are expected to rise and only by 0.25% to 0.50% early in 2023. Steady interest rates and even slight declines in interest rates are expected for the foreseeable future. While on the one hand this is a return to interest rate levels closer to the long-term average (see Figure 2), this is a great change from the last 12 years of fiscal stimulus and quantitative easing that started with the 2009 recession.

In Figure 2, we have plotted various countries' prime interest rate levels, compared with the long-term average prime rates (see Note 1). It may be hard to remember that, coming into 2020, prime rates were lower in response to the 2009 global recession and had persisted, as recovery never really happened in some economies. Even with the recent rate hikes, and the possibility for more, most countries' central bank interest rates will remain below their long-term average prime interest rates.

Figure 2: Prime Interest Rates for Different Countries



Some form of economic slowdown occurred in most countries in 2022. Central banks are targeting a soft landing in 2023, but with this level of monetary policy intervention, there is always the possibility that the policies themselves cause a recession. While a few economists are predicting recessions in 2023, they are expected to be short, shallow and technical, with overall real economic growth occurring in 2023. Overall, the consensus among experts is increasingly less pessimistic.

Every country for which Gartner produces an IT spending forecast (see Note 2) had positive IT spending growth in 2022 and is forecast to have positive IT spending growth in 2023 as well (see Figure 3). This is despite many of these countries having GDP growth either just below or just above flat.

Figure 3: IT Spending Growth Overview by Country

The presumption that declining real or nominal GDP necessitates declining IT spending is false. There is not now, nor likely has there ever been, a correlation between GDP growth and IT spending growth. General economic conditions do not have a direct one-to-one effect on IT spending. However, there are second-order effects on business confidence, availability of cash and technical priorities, which influence IT spending but do not dictate the outcome.

Enterprises Will Lose the Competition for IT Talent

Despite recent economic headwinds, country-level job vacancy rates have been increasing every quarter, and the rates of open jobs per unemployed are at record lows in many developed countries. The “Great Resignation” that started in 2020 has resulted in the workforce being more mobile than at any other time in this century.

The jobs per unemployed rate hit record lows in many countries — two jobs per job seeker in the U.S. Switching companies has never been easier, attrition rates are higher than business leaders would like, and hiring is more difficult. Employees are switching jobs, most often within the same industry and role, for reasons often outside the control of the employer. Reasons include better work-life balance, remote working options and more compensation.

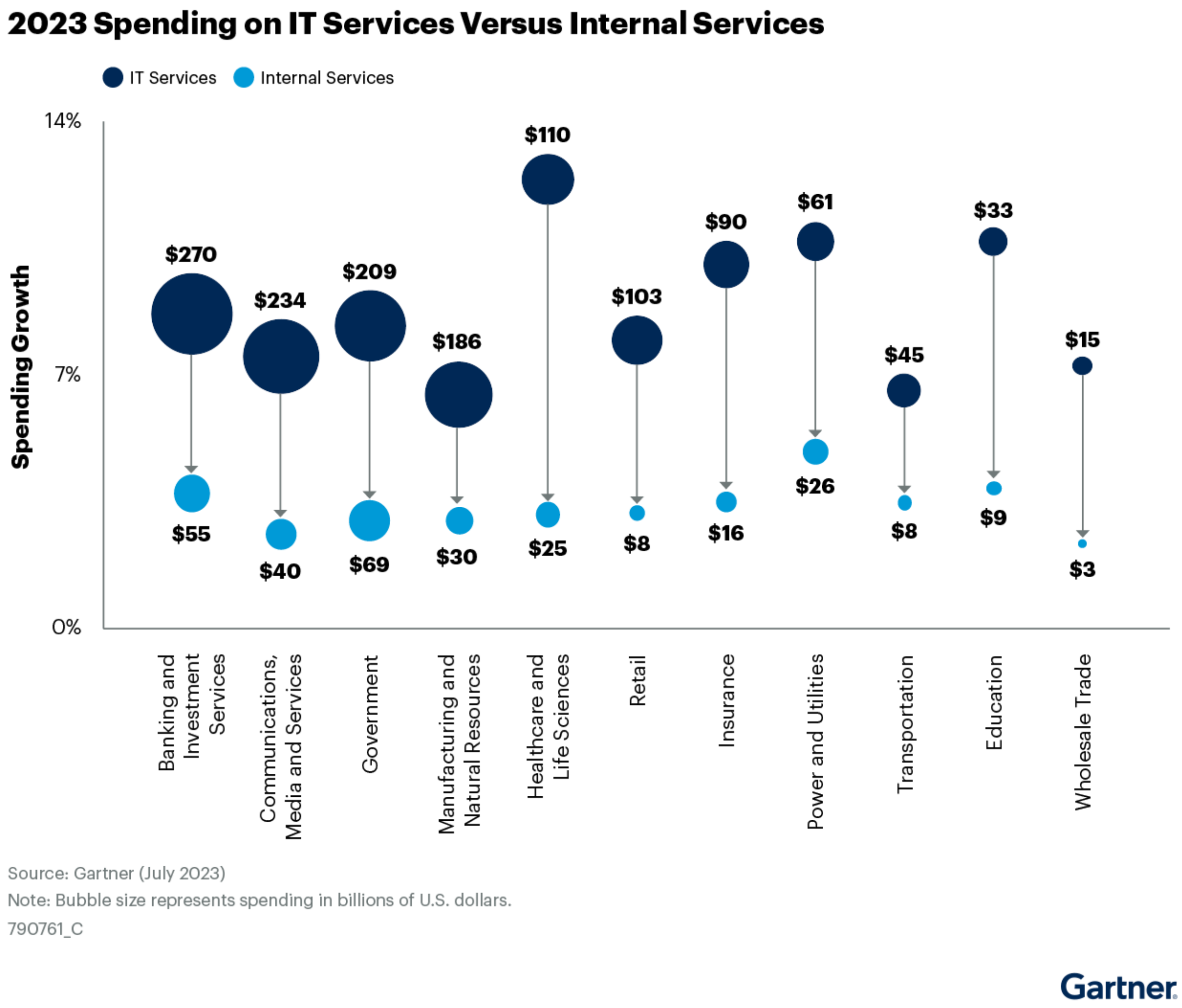
Jobs in IT are different. There is a migration of IT skills away from enterprise CIOs and toward technology and service providers (TSPs). Employees with critical IT skills are switching employers, and CIOs are losing talented employees faster than they can hire. While TSPs are currently suffering high levels of attrition, they are more able to hire and attract new talent. Even the tech firms that have gone through recent rounds of layoffs (and those that will) have not added enough unemployed IT staff to fill the gap between supply and demand.

Gartner’s global labor market survey [2] captures the importance that employees attach to different employment attributes as well as their current satisfaction level with these attributes (see Establish a Compelling Employee Value Proposition to Attract and Retain Applications Talent). The results clearly show that CIOs need to reinvent their IT employment value proposition (EVP) to attract and retain critical talent.

New EVPs are likely to focus on the employer's core strengths and aspects of the job within the control of the CIO — focusing on the whole person, providing flexible working conditions, improving work-life balance and personalizing employment. Even with these changes and refocusing, at best, enterprises will be able to stop the flow of their IT staff. The critically important job attributes — such as development opportunities, career opportunities, compensation and innovative work — are all better met with TSPs, and overall migration of employees from enterprise CIOs to TSPs will continue.

Further, we see slow growth in spend on internal services in all industries (see Figure 4). This growth is not enough to keep up with wage rate increases. As a result, enterprises will spend more money on fewer staff and turn to IT services firms to fill in the gaps.

Figure 4: 2023 Spending on IT Services Versus Internal Services



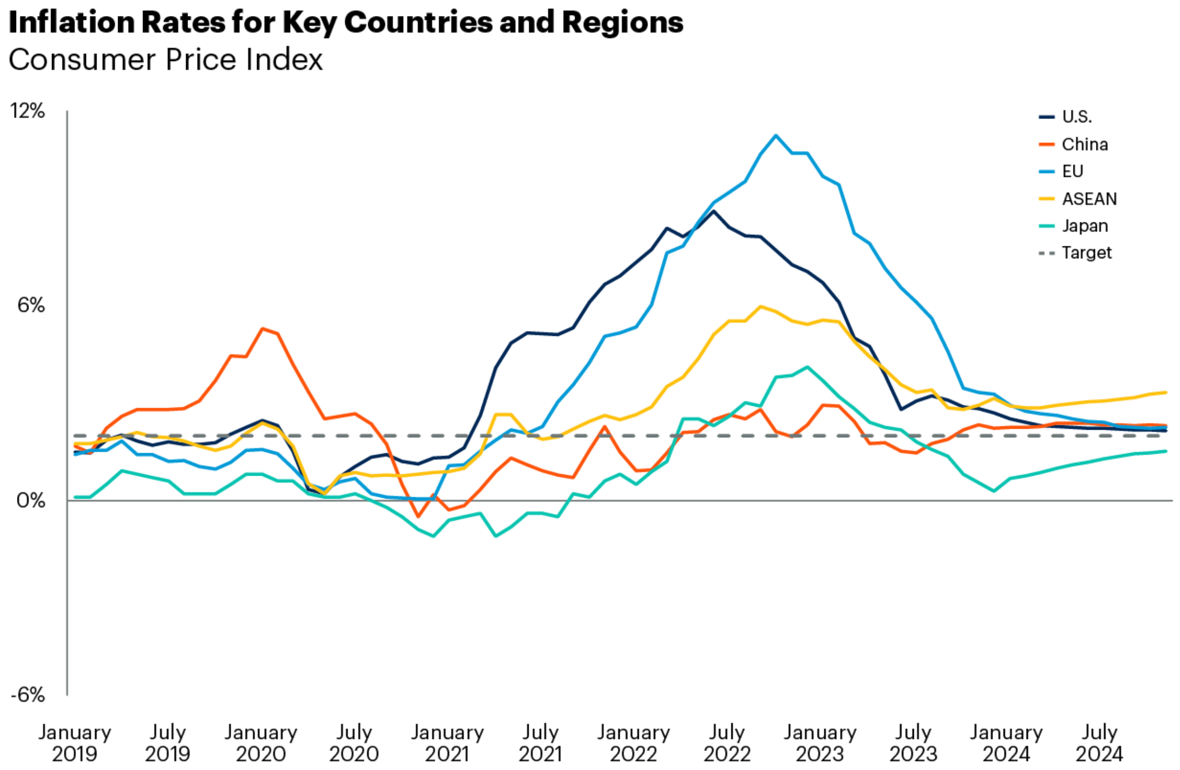
Consumer IT Spending Is Suffering From Inflation

Inflation has cut into consumer purchasing power in almost every country around the world. As Figure 5 shows, inflation has been above the target 2% for most of the Western world since July 2021. Japan and China took until the beginning of 2022 to cross the threshold.

By definition, inflation reduces consumer purchasing power — it is inflation's predominant and most prevalent effect. When the basket of goods that make up the consumer price index (CPI) cost more, consumers can buy less with the same amount of cash. However, a consumer can maintain purchasing levels if the difference in cost can be made up for with savings or deferred from other purchases. Otherwise, the amount of goods an individual purchases is reduced while their spending remains the same.

Inflation disproportionately affects the lower-income bracket — those with the least savings or ability to defer spending from nonessential areas. But as inflation rates climb, and the effects last longer, purchasing power reductions climb to higher-income brackets.

Figure 5: Inflation Rates for Key Countries and Regions



EU: Weighted average for 27 EU countries, including Austria, Belgium, Bulgaria, Croatia, Republic of Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain and Sweden.
ASEAN: Weighted average for 10 countries of the Association of Southeast Asian Nations, including Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam.

Source: Adapted From S&P Global (May 2023)

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During the 2009 global recession, mobile phone unit sales dropped less than 1%. [3] If Maslow were to redraw his famous hierarchy today, it would have food, mobile phones and shelter at the bottom. It has been a long time since mobile devices moved from luxury items to necessities. Thus, in 2021, consumer IT spending was unaffected by inflation. The effect was too new and the inflation rate too low to cause a change in consumption patterns — in fact, overall consumer IT spending grew 7.7%.

However, in 2022, consumer spending on mobile phones dropped by 4.5% and spending on PCs and tablets dropped 8.6% in constant currency terms — the largest drop in consumer purchases in a single year. Overall, consumer purchasing power has been reduced to the point that many consumers are now deferring 2022 and 2023 device purchases until 2024. For the consumer, with the forced refresh in 2020 and 2021, primarily due to remote work, remote education and pandemic-related entertainment, the consumer device installed base is still very young. Consumers' ability to push off refreshing most tech will continue through 2024. Without any new need to purchase (e.g., must-have features, new software to support, a security hole that needs patching or an OS upgrade requirement), the current installed base will suffice. Growth in overall spending returns in 2024, but it will take until 2025 to exceed 2021 spending levels.

Acronym Key and Glossary Terms

ASEAN	Association of Southeast Asian Nations
CAGR	compound annual growth rate
CPI	consumer price index
EVP	employment value proposition
GDP	gross domestic product
IaaS	infrastructure as a service
SVB	Silicon Valley Bank
TSP	technology and service provider

Evidence

[1] **Gartner Financial Services Survey on SVB Collapse and Fallout, March 2023.** This survey aimed to seek feedback on how organizations are responding to the recent collapse of SVB, Signature Bank, Silvergate Bank and others. This online survey was fielded from 15 through 22 March. It included 101 respondents who were senior business and technology leaders from financial services organizations. The survey was developed collaboratively by a team of Gartner analysts and the CIO ICAT team. Disclaimer: The results of this study do not represent global findings or the market as a whole, but instead reflect the sentiment of the respondents surveyed.

[2] **2022 Gartner Global Labor Market Survey.** The survey was based on responses from 18,009 employees globally, including 1,611 employees in the IT function. Responses were collected monthly across 40 different countries in 15 languages, and were then aggregated to generate quarterly findings. There were no statistically significant differences in the sample composition across the three months.

[3] Forecast: Mobile Devices, Worldwide, 2008-2015, 3Q11 Update.

Note 1: Long-Term Average Prime Interest Rates

Gartner calculated the interest rate values in Table 1 by taking the average value of a country's central bank prime interest rates between 2000 and 2007.

Table 1: Central Bank Average Prime Interest Rates

(Enlarged table in Appendix)

Country	Average Prime Rate (%)
Australia	5.41
Canada	3.54
China	3.36
Denmark	3.33
France	3.05
Germany	3.05
India	7.20
Japan	0.10
Mexico	7.52
Saudi Arabia	3.93
South Africa	9.83
U.K.	4.74
U.S.	3.43

Source: Gartner (July 2023)

Note 2: Gartner's Forecast Coverage

Russian Invasion of Ukraine

In response to the Russian invasion of Ukraine that began on 24 February 2022 and was ongoing at the time of this publication, Gartner is suspending market coverage of Russia and the Eurasia region. The definition of the Rest of Eastern Europe has been expanded to include Russia and the countries previously covered in the Rest of Eurasia.

Exchange Rate Alert

In the current environment, currency exchange rate fluctuations will be more volatile. Foundational factors, such as interest rates, tariffs and economic sanctions, changed more rapidly and with less predictability throughout 2022, and the expectation is that this will continue throughout 2023. For the near term, expectations for exchange rates should be treated with a heightened level of caution.

Document Revision History

Forecast Analysis: IT Spending, Worldwide - 23 February 2023

Forecast Analysis: IT Spending, Worldwide - 6 December 2022

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Forecast Analysis: IT Spending, Worldwide - 14 December 2021

Forecast Analysis: IT Spending, Worldwide - 3 September 2021

Forecast Analysis: IT Spending, Worldwide - 14 May 2021

Forecast Analysis: IT Spending, Worldwide - 23 February 2021

Forecast Analysis: IT Spending, Worldwide - 1 December 2020

Forecast Analysis: IT Spending, Worldwide - 18 September 2020

Forecast Analysis: IT Spending, Worldwide - 19 February 2020

Forecast Analysis: IT Spending, Worldwide - 5 December 2019

Forecast Analysis: IT Spending, Worldwide - 16 September 2019

Forecast Analysis: IT Spending, Worldwide - 16 May 2019

Forecast Analysis: IT Spending, Worldwide, 4Q18 Update - 25 February 2019

Forecast Analysis: IT Spending, Worldwide, 3Q18 Update - 3 December 2018

Forecast Analysis: IT Spending, Worldwide, 2Q18 Update - 29 August 2018

Forecast Analysis: IT Spending, Worldwide, 1Q18 Update - 23 May 2018

Forecast Analysis: IT Spending, Worldwide, 4Q17 Update - 6 February 2018

Forecast Analysis: IT Spending, Worldwide, 3Q17 Update - 31 October 2017

Forecast Analysis: IT Spending, Worldwide, 2Q17 Update - 16 August 2017

Forecast Analysis: IT Spending, Worldwide, 1Q17 Update - 16 May 2017

Forecast Analysis: IT Spending, Worldwide, 4Q16 Update - 6 March 2017

Forecast Analysis: IT Spending, Worldwide, 3Q16 Update - 20 December 2016

Forecast Analysis: IT Spending, Worldwide, 2Q16 Update - 31 August 2016

Forecast Analysis: IT Spending, Worldwide, 1Q16 Update - 26 April 2016

Forecast Analysis: IT Spending, Worldwide, 4Q15 Update - 19 February 2016

Forecast Analysis: IT Spending, Worldwide, 3Q15 Update - 11 November 2015

Forecast Analysis: IT Spending, Worldwide, 2Q15 Update - 24 August 2015

Forecast Analysis: IT Spending, Worldwide, 1Q15 Update - 6 May 2015

Forecast Analysis: IT Spending, Worldwide, 4Q14 Update - 13 February 2015

Forecast Analysis: IT Spending, Worldwide, 3Q14 Update - 22 October 2014

Forecast Analysis: IT Spending, Worldwide, 2Q14 Update - 29 July 2014

Forecast Analysis: IT Spending, Worldwide, 1Q14 Update - 12 May 2014

Forecast Analysis: IT Spending, Worldwide, 4Q13 Update - 28 January 2014

Forecast Analysis: IT Spending, Worldwide, 3Q13 Update - 18 November 2013

Forecast Overview: IT Spending, Worldwide, 2Q13 Update - 12 July 2013

Forecast Overview: IT Spending, Worldwide, 1Q13 Update - 25 April 2013

Forecast Overview: IT Spending, Worldwide, 4Q12 Update - 28 January 2013

Forecast Overview: IT Spending, Worldwide, 2009-2016, 3Q12 Update - 19 November 2012

Forecast Overview: IT Spending, Worldwide, 2009-2016, 2Q12 Update - 10 August 2012

Forecast Overview: IT Spending, Worldwide, 2009-2016, 1Q12 Update - 4 May 2012

Forecast Overview: IT Spending, Worldwide, 2008-2015, 4Q11 Update - 30 January 2012

Forecast Overview: IT Spending, Worldwide, 2008-2015, 3Q11 Update - 27 October 2011

Forecast Overview: IT Spending, Worldwide, 2008-2015, 2Q11 Update - 1 August 2011

Forecast Overview: IT Spending, Worldwide, 2008-2015, 1Q11 Update - 15 April 2011

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Source: Gartner (July 2023)