Forecast Analysis: IT Spending, Worldwide

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Initiatives: Technology Market Essentials

> AI and generative AI will have a profound impact on IT, but, not a commensurate impact on near-term IT spending. In 2023 and 2024, IT spending is driven by more traditional forces: profitability, labor and a wave of change fatigue.

Overview

Key Findings

- A wave of change fatigue is washing over CEOs and CFOs, making them hesitant to sign new IT deals, and asking for more sureties on risks and rewards to move deals forward.
- Enterprises and governments are facing higher borrowing costs, skills shortages, cloud pricing increases and supply chain disruptions — leading to reevaluation of ROI for ongoing and proposed projects.
- The “growth at all costs” strategy pursued for more than 10 years is giving way to a greater focus on efficient growth and a refocus on costs.
- Inflation has reduced consumer purchasing power and caused consumers to shift away from device purchases while leaving communications service spending intact.

Analysis

The Turbulent Economy and New Challenges

Turbulence describes unstable movement. 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.

A wave of change fatigue has been washing over employees due to the incredible number of changes experienced since March 2020 and the economic turmoil that has buffeted many countries. According to Quick Answer: How to Address Change Fatigue Risk, in 2016, 74% of employees surveyed were willing to support organizational change; today, only 43% say the same. This kind of fatigue is often symptomatic of uncertainty or a lack of clarity. CIOs with change fatigue may become skeptical about the effectiveness of change initiatives and may question the return on investment (ROI) of such projects. Change fatigue could manifest as change resistance — with CIOs hesitating to sign new contracts, commit to long-term initiatives or take on new technology partners. For the few new initiatives that do get launched, there is a requirement for higher levels of risk mitigation and great certainty of outcomes.

The COVID-19 pandemic put many corporations on a path to chase new revenue streams, to put new value propositions in front of clients and to digitalize the means by which they currently generated revenue. This made 2021 the year of expansion or acceleration of the growth-at-all-costs strategy most organizations had been undertaking for years. This renewed the growth-at-all-costs strategy turned into IT spending growth for software and IT services of 11.4% in 2021 and 14.4% in 2022. By 2023, unmet revenue expectations have ushered in a new wave of pragmatism — maintaining a healthy profit margin has become pivotal for corporations. In extreme cases, organizations are resorting to cost-cutting measures; reducing headcount and cutting discretionary spending, including IT. Organizations taking a more pragmatic approach are simply shifting the emphasis of ongoing IT projects toward cost control, efficiencies and automation, while curtailing IT initiatives with longer ROIs.

Every business leader wants to use generative AI (GenAI), but clarity on what it is or the risks associated with its use is currently difficult to obtain. CIOs are grappling with how to best use it and how to manage the associated risks. While early adopters have begun experimentation, in 2023, most companies are planning for how their organization will use AI and GenAI and watching quietly as the technology matures. 2024 and beyond will be more years of action around AI, as this technology speeds across the Hype Cycle. Gartner is predicting commoditization due to the rapid inclusion of GenAI into applications offered by vendors or the emergence of niche industry solutions.

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 CIOs has been a reappraisal of their cloud use as well as their cloud strategy. Having started 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.

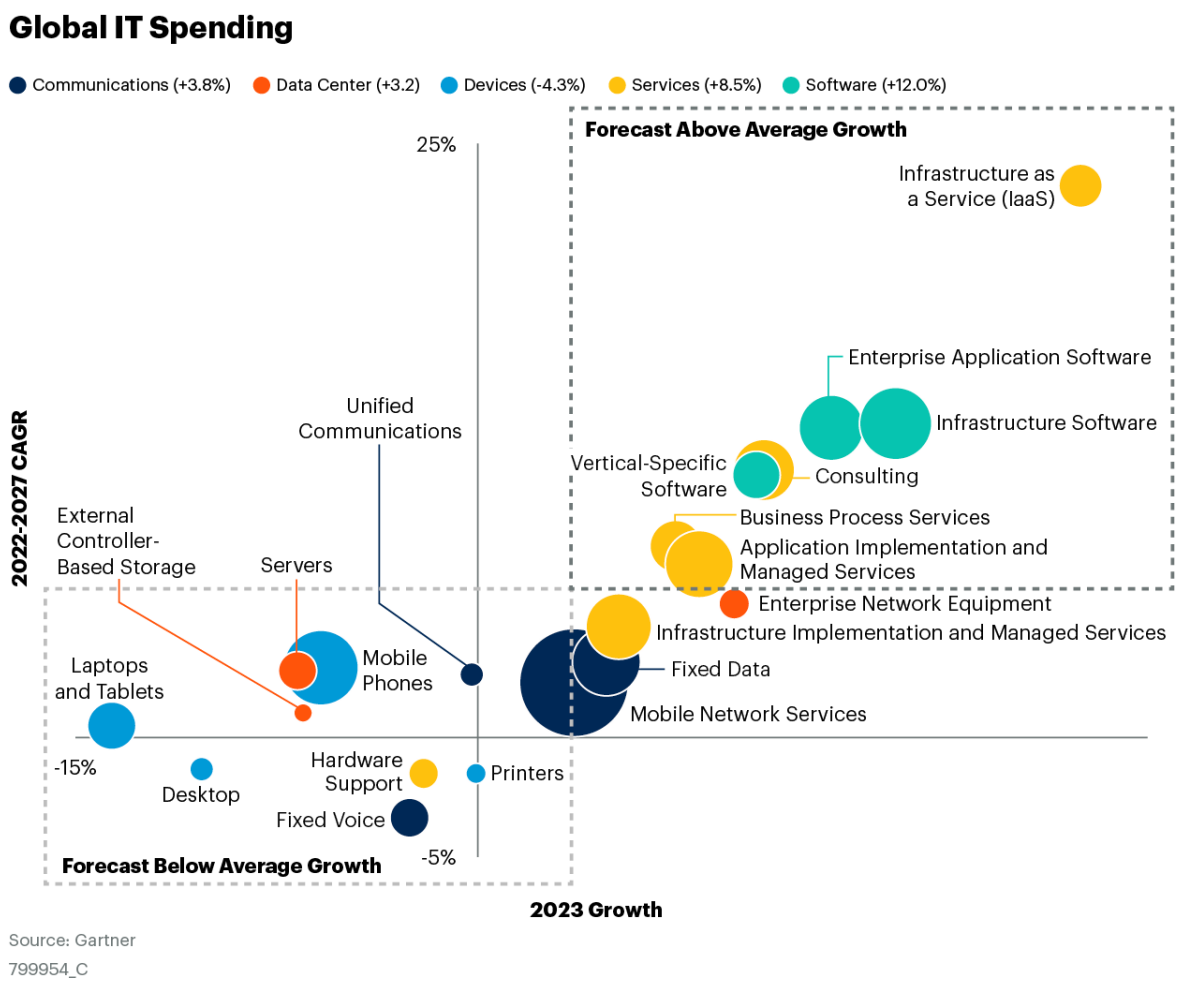
The current economic turbulence is being fed from multiple sources that include inflation, interest rates, public policy, digital sovereignty, supply chain constraints, international conflict and skilled labor shortages. The Gartner global IT spending forecast has the primary economic assumption that real GDP growth will remain very low, between 0 and 1.5%, in many countries in 2023 and 2024 (see Forecast: IT Services, Worldwide, 2021-2027, 2Q23 Update). Six countries could experience a short shallow technical recession before the end of 2024, including Argentina, Brazil, France, Italy, the United Kingdom and the United States, as well as two candidates that are more likely: Germany and Sweden. By 2024, new challenges of dealing with government debt, high interest rates, and other deleterious effects of having fought the endemic and inflation will also emerge.

CIOs are shifting some priorities inwardly:

- Reevaluate the timing and priority of cloud-first initiatives.
- Use digital technology to realize operational efficiency and cost savings.
- Expand operational landscape to include hybrid work, remote and edge environments.
- Upskill/reskill existing IT staff, hire new IT staff and rebalance the use of external service provision.
- Plan for AI and GenAI.
- Enhance and maintain a secure technology environment.

This balancing act that CIOs are performing creates dichotomies in spending, which are evident in the 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 continues to skew toward cloud options (including infrastructure as a service [IaaS], which is expected to grow at a 27.3% compound annual growth rate [CAGR] from 2022 through 2027).

Figure 1. Global IT Spending



Further, during the height of the COVID-19 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 the 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.

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. Skilled employees leave their jobs for a variety of reasons: better life/work balance, remote working options, more compensation, bonus level, stable brand, growth focus or recognition.

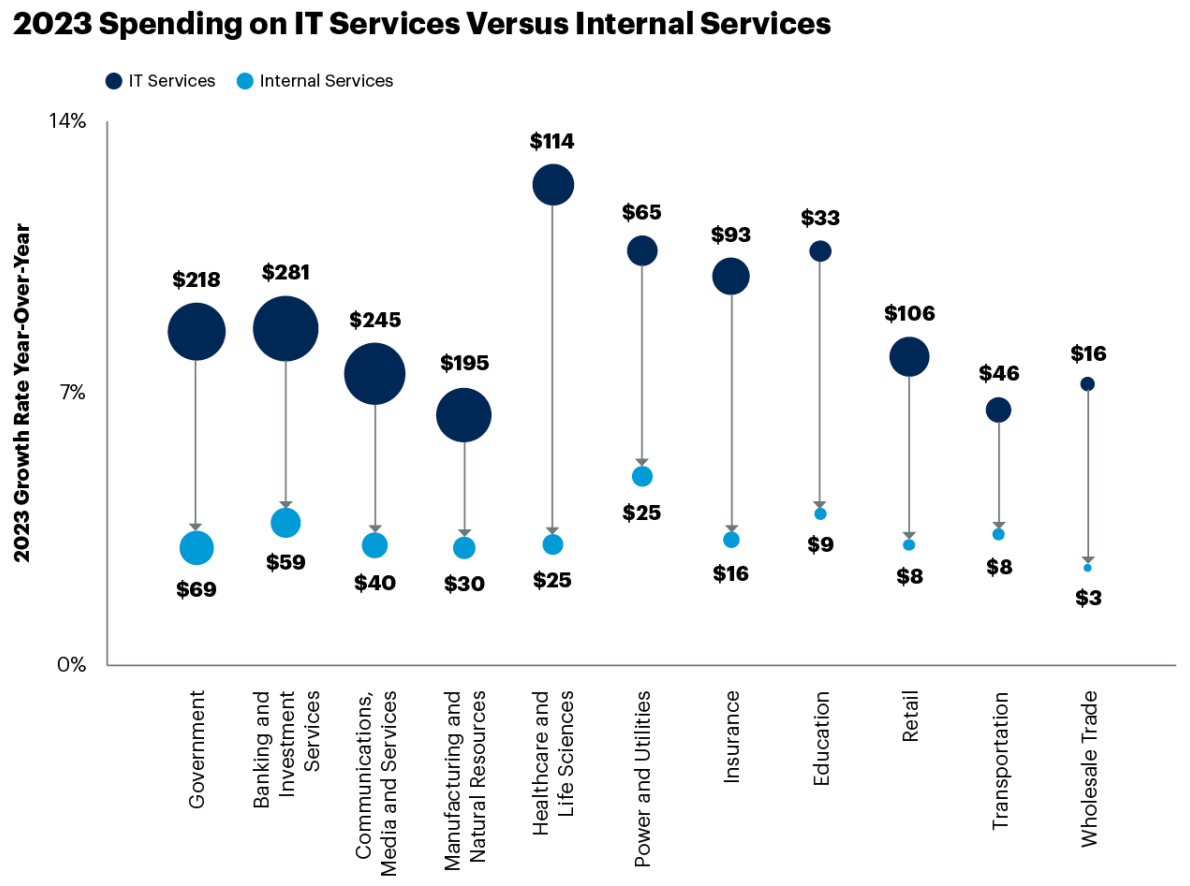
The jobs per unemployed rate hit record lows in many countries — two jobs per job seeker in the U.S. Switching companies has never been easier, attrition rates are higher than business leaders would like, and hiring is more difficult. Employees are switching jobs, most often within the same industry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

Jobs in IT are different. There is a migration of IT skills away from enterprise CIOs 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.

The new employee value propositions (EVPs) are likely to be focused on the employer's core strengths and aspects of the job within the control of the CIO — focused on the whole person, providing flexible working, improving work-life balance and radical flexibility in 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 enterprises to TSPs will continue.

Further, we see slow growth in spend on internal services in all industries (see Figure 2). 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 2. 2023 Spending on IT Services Versus Internal Services



Source: Gartner
Note: Bubble size represents spending in billions of U.S. dollars.
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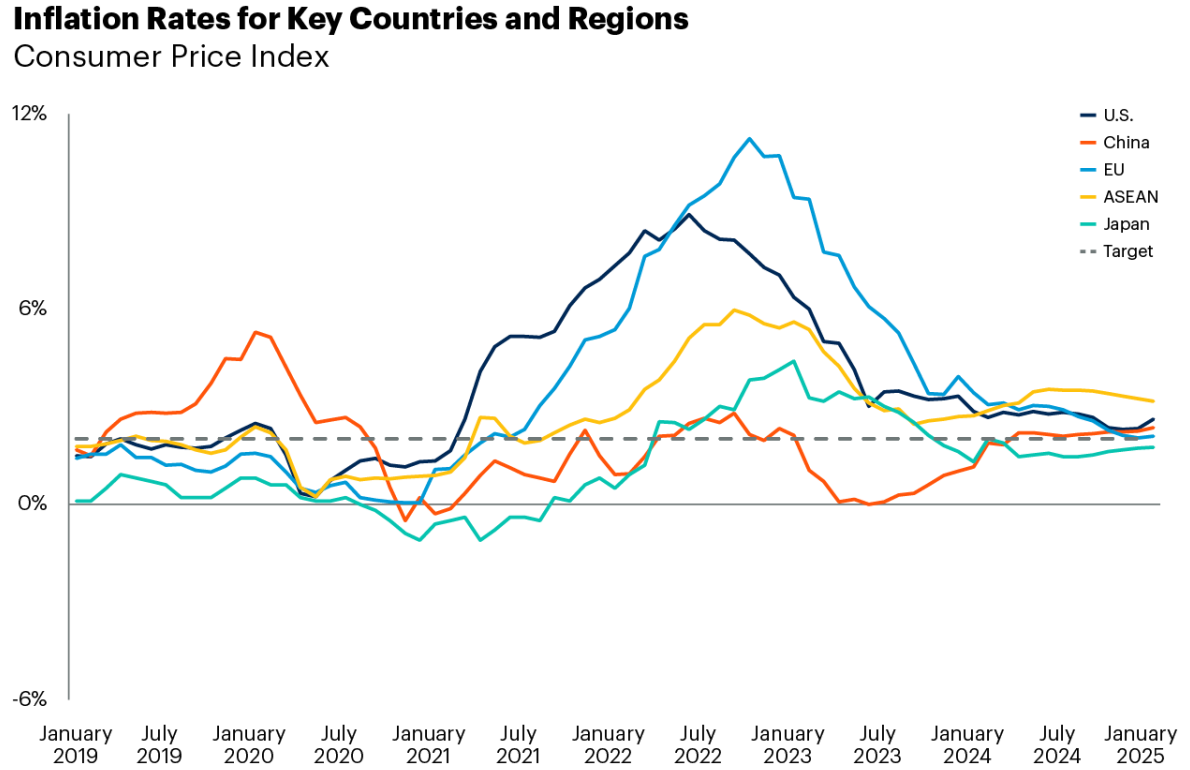
Consumer Spending Finds a New Bottom in 2023

Inflation cut consumer purchasing power in almost every country around the world. As Figure 3 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.

Figure 3: 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: S&P Global (July 2023)

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Consumers' ability to maintain spending levels through reducing saving and incurring debt ended in late 2022. Consumer spending devices in 2022 was a flat negative 0.1% growth in constant currency terms. In 2023, consumer device spending will be negative 8.8% in constant currency terms. In U.S. dollar terms, the total consumer spending of devices of $556 billion will not be surpassed until 2026, with 2023 representing the new bottom with a total of $473 billion.

Acronym Key and Glossary Terms

CAGR	compound annual growth rate
CEO	chief executive officer
CIO	chief information officer
COGS	cost of goods sold
COR	cost of revenue
ECB	external controller-based
ENE	enterprise network equipment
GDP	gross domestic product
SGA	selling, general and administrative
UC	unified communications

Note 1: 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 - 12 July 2023

Forecast Analysis: IT Spending, Worldwide - 23 February 2023

Forecast Analysis: IT Spending, Worldwide - 6 December 2022

Forecast Analysis: IT Spending, Worldwide - 21 September 2022

Forecast Analysis: IT Spending, Worldwide - 15 June 2022

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

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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

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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

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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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Gartner Market Databook, 2Q23 Update

Forecast Analysis: Enterprise Application Software, Worldwide

Forecast Analysis: Enterprise Network Equipment, Worldwide

Forecast Analysis: External Controller-Based Storage, Worldwide

Forecast Analysis: Communications Services, Worldwide

Forecast Analysis: Unified Communications, Worldwide

Forecast Analysis: Enterprise IT Spending Across Vertical Industries, Worldwide

Enterprise Technology Adoption Profile Self-Assessment

Monthly Supply Chain Alert: September 2023
