Forecast Analysis: IT Spending, Worldwide

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Initiatives: Technology Market Essentials

Global IT spending is forecast to reach $4.5 trillion in 2023, representing a 5.4% increase over 2022 spending levels in constant currency. As a technology and service provider, if you liked 2022, you will like 2023.

Overview

Key Findings

- Inflation has reduced consumer purchasing power and caused consumers to shift away from device purchases.
- 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.

Recommendations

Technology and service providers should:

- Manufacture consumer devices with caution and use inventory to deal with fluctuating consumer demand through 2023, until stable demand and spending levels are restored in 2024.
- Deliver quantifiable short-term value because as enterprises break long-term contracts into multiple shorter projects, being able to show value at the end of a short project will be critical to obtaining the next project.

- Follow the CIO's change in focus and shift to product/services/offerings that strengthen internal operations of departments outside of IT and adjust to changes in cash flow, revenue recognition, price and wage increases.
- Ensure sales, marketing and customer engagements attenuate the differences between confident buyers seeking new advantage and indecisive buyers needing cost assurance, to account for the higher levels of polarization between enterprises' attitude toward IT spending.

Analysis

The Turbulent Economy and New Challenges

Turbulence describes unstable movement. 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, including inflation, interest rates, public policy, digital sovereignty, supply chain constraints, international conflict, as well as the COVID-19 pandemic. By 2024, new challenges of dealing with government debt, high interest rates, and other deleterious effects of having fought a 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.

Capricious budgets are not central to this hesitancy. In the 2022 Gartner CEO and Senior Business Executive Survey, CFO respondents reported increased investment intent in digital capabilities, rising from 82% in the previous year's survey to 91% in 2022. [1] CFOs are not only investing in key finance technology areas but also in the people and skills to support them (see CFO Perspective on the 2022 CEO Survey — Digital Transformation Still a Key Priority).

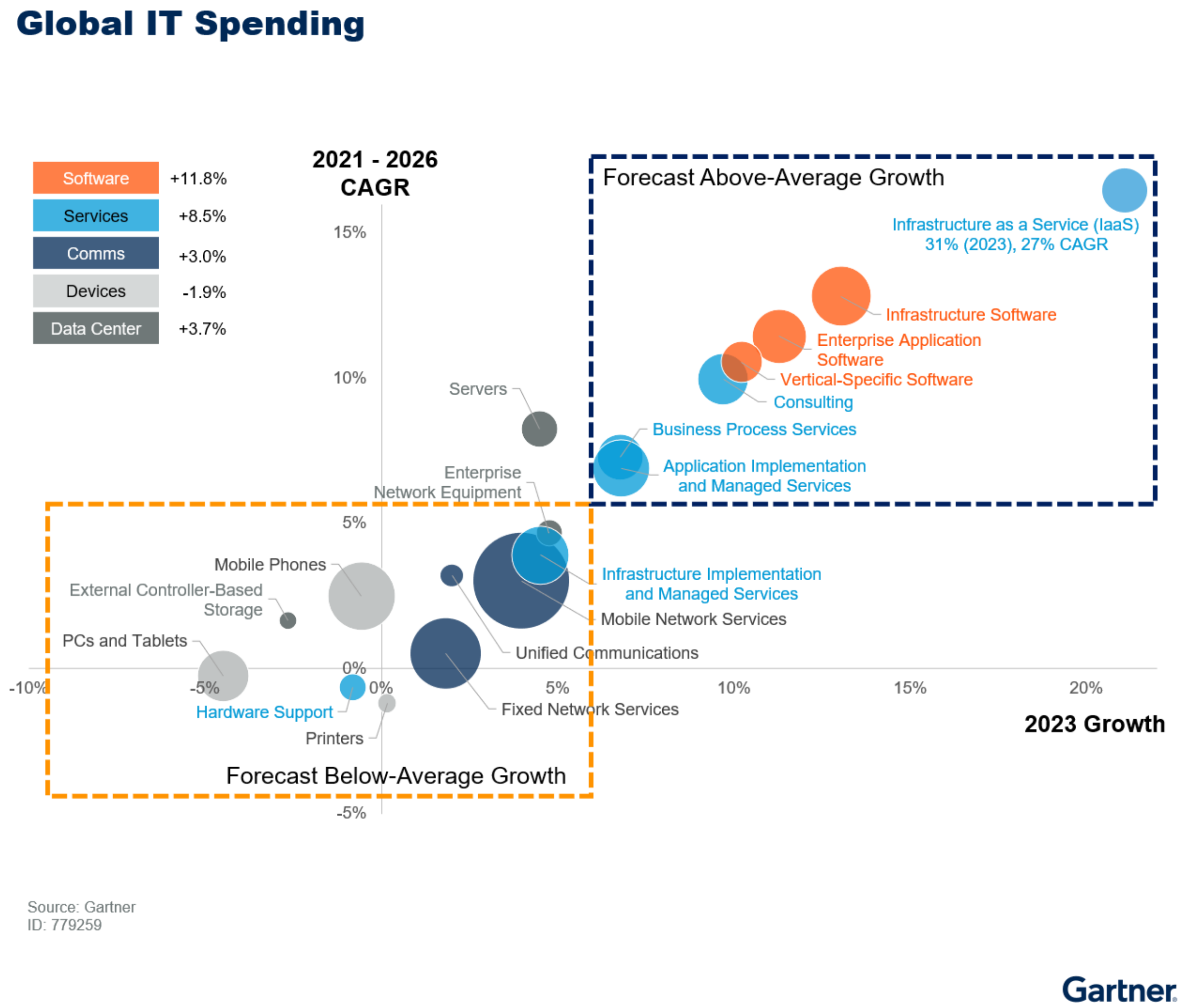
CIOs have many priorities to balance simultaneously:

- 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 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 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 has shifted to cloud options (including IaaS, which is expected to grow at a 27.3% 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 vs. 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 Understanding Gartner's Enterprise Technology Adoption Profiles) — 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

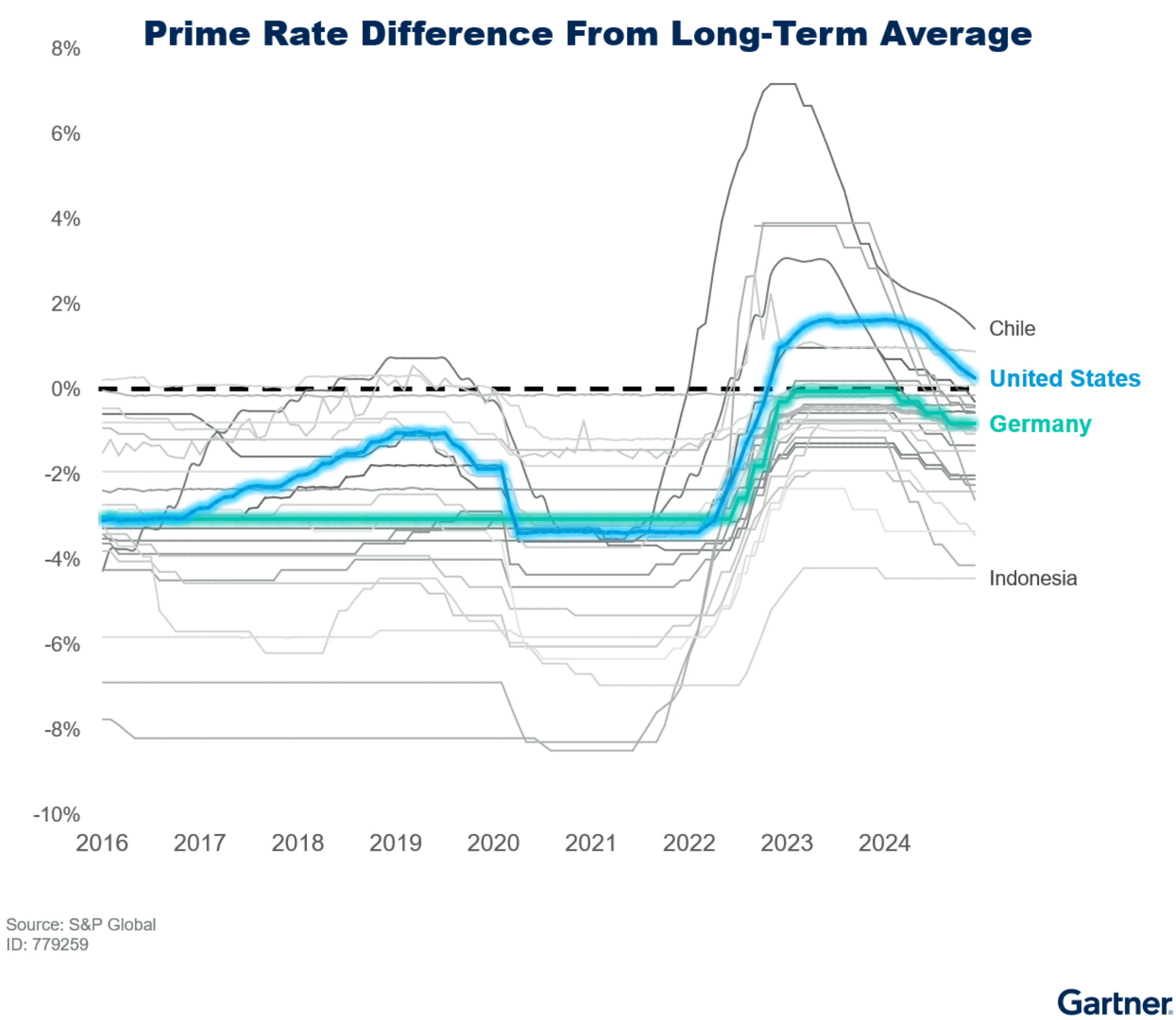
This trend is feeding the shift from buying technology to composing and assembling technology to meet specific business drivers, which is foundational to the growth of cloud over on-premises for new IT spending. However, starting in 2022 and continuing in 2023, the more traditional back-office and operational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

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 the interest rate levels closer to the long term (see Table 1), 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 to 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 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.

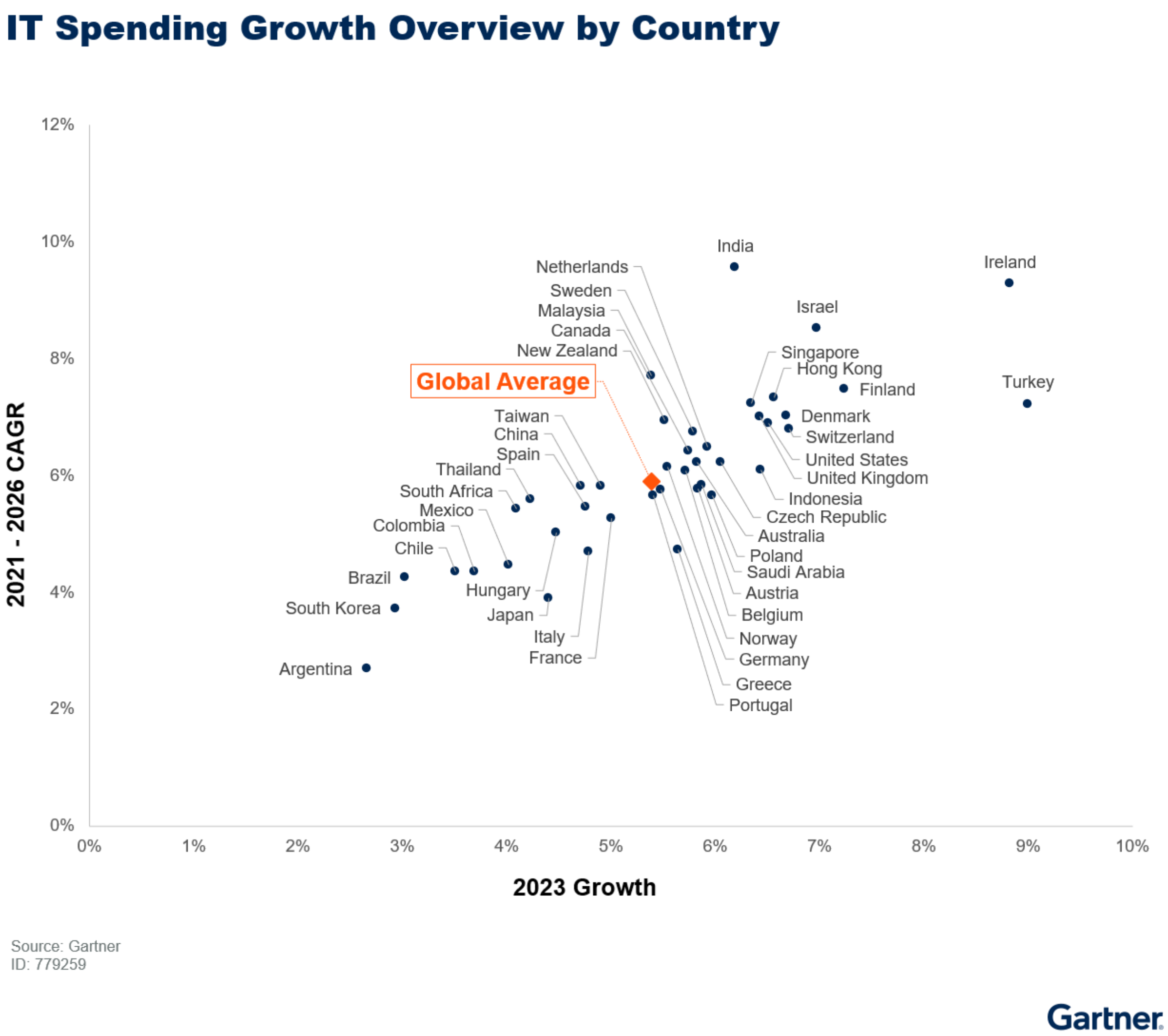
Figure 2: Prime Interest Rates for Different Countries



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 of 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 the fact that many of these countries will have GDP growth either just below or just above flat.

Figure 3: IT Spending Growth Overview by Country



The presumption that declining 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. Skilled employees left their jobs for a variety of reasons: better life/work balance, remote working options, more compensation, bonus level, stable brand, growth focus, recognition or even if the break room had the perfect 16 oz Chai Latte with almond milk, 2 shots of espresso, 1 pump of vanilla syrup and candied organic cinnamon sprinkles.

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.

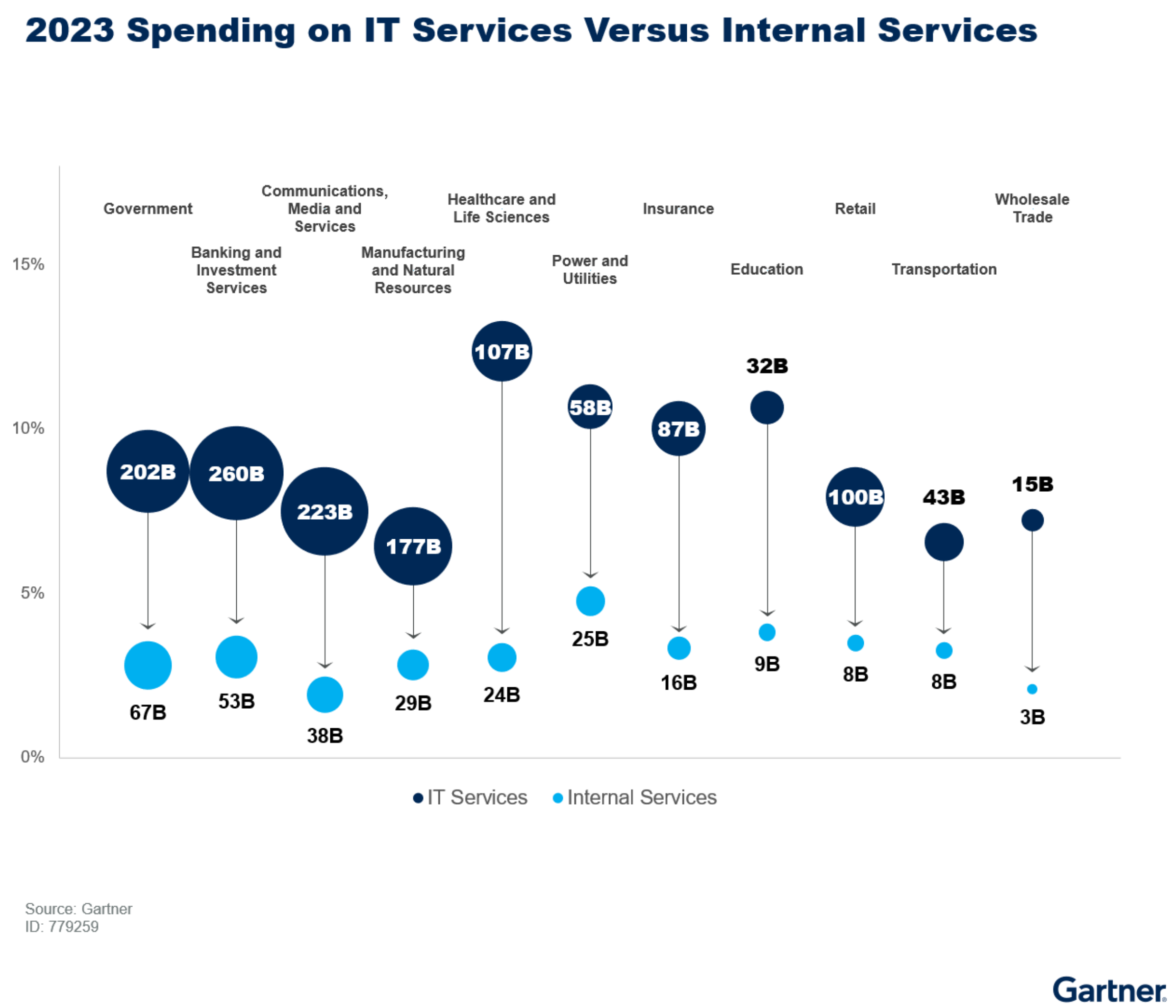
Jobs in IT are different. There is a migration of IT skills away from enterprise CIOs toward TSPs. Employees with critical IT skills are switching employers, and CIOs are losing talented employees faster than they can hire. While TSPs are currently suffering high levels of attrition, they are more able to hire and attract new talent.

Gartner's Global Labor Market Survey [2] captures the importance 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.

The new 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 enterprise 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



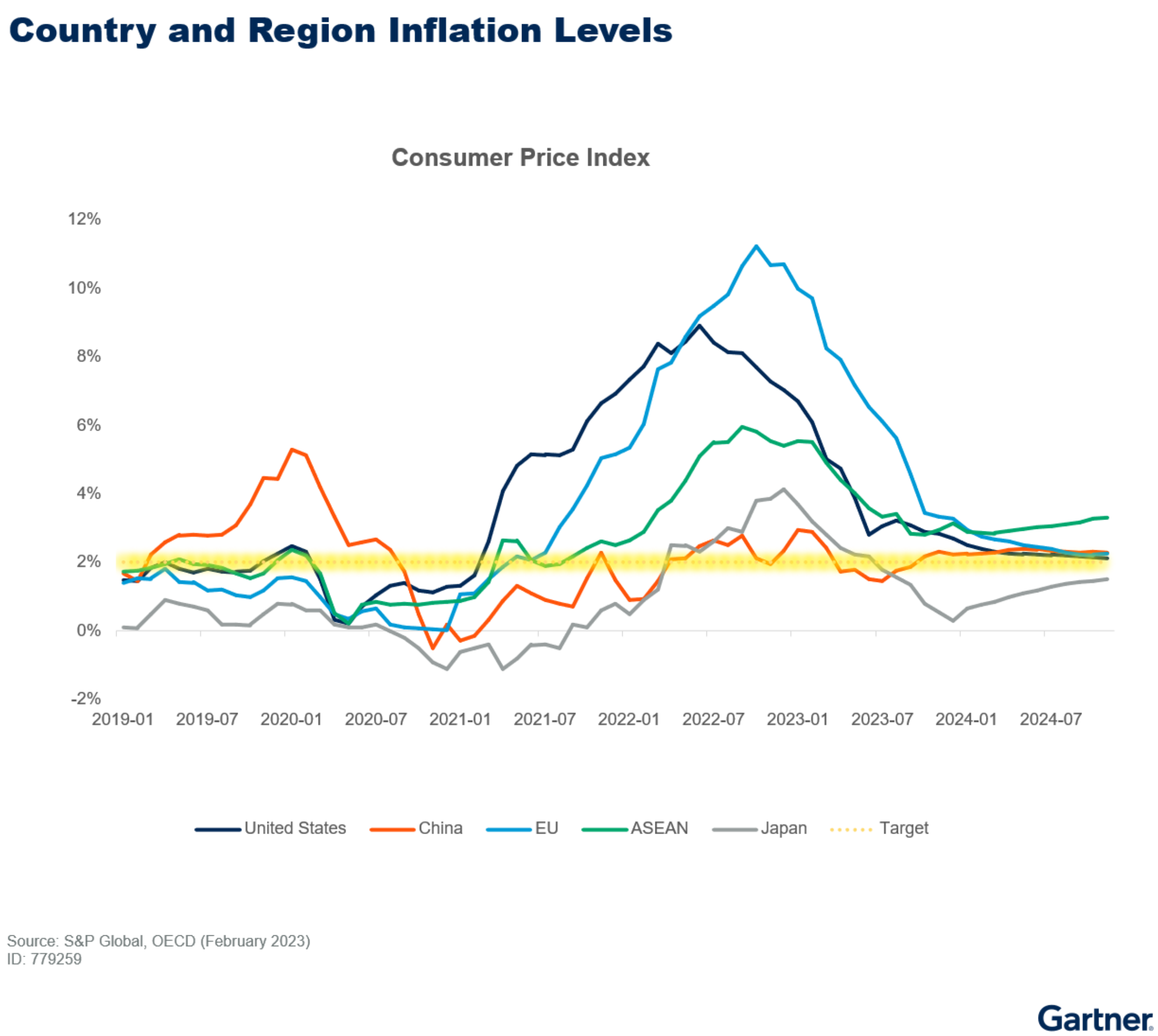
Consumer IT Spending Is Suffering From Inflation

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



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. Fortunately for the consumer, with the forced refresh in 2020 and 2021, primarily due to remote work, remote education and pandemic entertainment, the consumer devices installed base is still very young.

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

Evidence

[1] **2022 Gartner CEO and Senior Business Executive Survey.** This survey was conducted to examine CEO and senior business executive views on current business issues, as well as some areas of technology agenda impact. The survey was conducted from July through December 2021, with questions about the period from 2021 through 2023. One-quarter of the survey sample was collected in July and August 2021, and three-quarters was collected in October through December 2021. In total, 410 actively employed CEOs, and other senior executive business leaders qualified and participated. The responses were collected via 382 online surveys and 28 telephone interviews. The sample mix by role was: CEOs (n = 253); CFOs (n = 88); COOs or other C-level executives (n = 19); and chairs, presidents or board directors (n = 50). The sample mix by location was: North America (n = 176), Europe (n = 97), Asia/Pacific (n = 86), Latin America (n = 40), the Middle East (n = 4) and South Africa (n = 7). The sample mix by size was $50 million to less than $250 million (n = 58), $250 million to less than $1 billion (n = 81), $1 billion to less than $10 billion (n = 212), and $10 billion or more (n = 59). Disclaimer: Results of this survey do not represent global findings or the market as a whole, but reflect the sentiments of the respondents and companies 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
United Kingdom	4.74
United States	3.43

Source: Gartner (February 2023)

Note 2: Gartner's Forecast Coverage

Russian Invasion of Ukraine

In response to Russia's invasion of Ukraine that began on 24 February 2022 and was ongoing at the time of this publication, Gartner is suspending forecast coverage of Russia and the Eurasia region. The definition of 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 this will continue into 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 - 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

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

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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

Recommended by the Authors

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Market Definitions and Methodology: Gartner Market Databook

Forecast Alert: IT Spending, Worldwide, 4Q22 Update

Gartner Market Databook, 4Q22 Update

Forecast Analysis: Enterprise Application Software, Worldwide

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Forecast Analysis: External Controller-Based Storage, Worldwide

Forecast Analysis: Communications Services, Worldwide

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Forecast Analysis: Enterprise IT Spending Across Vertical Industries, Worldwide

Forecast Analysis: Knowledge Employees, Hybrid, Fully Remote and On-Site Work Styles, Worldwide

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Source: Gartner (February 2023)