

IT and the Economy Update: No IT Recession in U.S. Yet

Ken McGee

Despite troubling economic times, Gartner's preliminary view finds no signs yet that enterprise IT spending in the U.S. is experiencing negative growth.

NEWS ANALYSIS

Event

On 30 January 2008, the U.S. Commerce Department reported that the U.S. gross domestic product increased at an annual rate of just 0.6% in the fourth quarter of 2007. By comparison, during the third quarter of 2007, GDP grew at an annual rate of 4.9%.

Analysis

To paraphrase Nobel prize-winning economist Robert Solow, concerns about how a potential U.S. recession in 2008 will negatively affect IT seem to appear in many places, except in the economic data. Therefore, while a recession may still hit the U.S., we as yet see no evidence that IT spending — especially new IT capital spending — will experience negative growth in 2008.

Current economic concerns center primarily on a sharp reduction in “Personal Consumption Expenditures” (consumer spending), which accounts for roughly two-thirds of the U.S. economy, born principally from mortgage payment delinquencies, mortgage defaults, home foreclosures, falling housing prices and rising credit card debt and delinquencies. However, recent monetary, fiscal and political actions — combined with the knowledge that neither of the two U.S. recessions in the past quarter century lasted more than eight months — may all have a softening affect on economic times ahead.

We did not see negative growth in any of the “Information Processing Equipment and Software” components of GDP for either 3Q07 (the quarter prior to the suspected recession) or for 4Q07. We do see meaningful declines in the GDP categories of home construction and personal consumption, but growth in new enterprise IT spending has only slowed — not gone negative.

So far, these findings are consistent with the Gartner 2008 CIO survey of 1,500 CIOs (just completed during 4Q07), which projects a 3.3% increase in their budgets compared with 2007 levels. As a double-check, we will poll the same people who participated in this to determine if there have been any changes to their 2008 IT budgets since their original survey responses to us in 4Q07.

We firmly believe that almost no good comes from playing the recession guessing game. However, we do believe that great value comes from informing clients in a timely fashion about **all** forces that will influence the IT industry and its practitioners. We will update our view of how the IT industry will fare in the economic times ahead as circumstances change and new information is revealed. We know this current view could prove to be incorrect within days or even hours as a galaxy of issues and facts are uncovered and disseminated. But for right now, new enterprise IT spending in the U.S. is not on a path toward negative growth. Stay tuned.

RECOMMENDATIONS

Do not conclude this First Take reflects Gartner's final projection for U.S. IT spending in 2008. In the meantime, however:

- Avoid engaging in the recession or no-recession guessing game.
- Create a team that will be responsible for cutting IT costs in 2008.
- Be ready to deploy a cost-cutting team/plan on the same day that senior executives issue a cost-cutting directive.

- Closely monitor competitors for signs of sudden or drastic cutbacks on business projects that involve significant IT participation. Advise senior executives to seize on such cutbacks by investing more heavily in truly strategic projects that will improve overall business performance in 2008 and beyond.

RECOMMENDED READING

- "Clients Should Prepare a 'Recession Budget' for 2008" — Two IT budgets should be created for 2008. The first should align with guidance already given for next year by enterprise executives, and the second should assume a recession arrives during 2008. **By Ken McGee**
- "The Impact of an Economic Slowdown on IT Demand" — The current sub-prime mortgage crisis is likely to result in an economic slowdown, which is expected to affect IT demand. **By Charles Smulders**

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