

U.S. Economic Report Does Not Justify 2010 IT Budget Increase

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CIOs should not view the U.S. Commerce Department's announcement that the U.S. economy grew during 3Q09 as a leading indicator that the U.S. or the rest of the world has returned to a sustained period of business growth.

NEWS ANALYSIS

Event

On 29 October 2009, the U.S. Commerce Department's Bureau of Economic Analysis announced that the U.S. economy grew at a seasonally adjusted annual rate of 3.5% over 2Q09.

Analysis

Since 2002, the U.S. economy has grown at an annual average rate of 2.3%. The 29 October 2009 government report that the U.S. economy had grown at an annual rate of 3.5% should set off alarm bells above the heads of CIOs currently finalizing their 2010 budgets. The economy did indeed grow, but CIOs and IT executives should consider the reasons for the vigor with which it grew during 3Q09 before using this positive news to justify any requests for increases to their 2010 IT budgets.

The three major components of the U.S. economy reported positive growth in 3Q09 (see Table 1); however, because personal consumption expenditures constitute more than 70% of the entire economy, a closer examination of the actual personal consumption data quickly reveals the genesis of a great deal of the actual growth during 3Q09.

Table 1. 3Q09 Results by Gross Domestic Product (GDP) Component

| Component | 3Q09 Result | Percent of GDP |
|-----------------------------------|-------------|----------------|
| Personal Consumption Expenditures | + 3.4% | 70% |
| Gross Private Domestic Investment | + 11.5% | 11% |
| Government Spending | +2.3% | 19% |

Source: U.S. Bureau of Economic Analysis (October 2009)

Prominent in the personal consumption expenditure report tables was a whopping 56% increase in the category "motor vehicles and parts," indicating the very favorable results of a temporary government stimulus plan to encourage new car sales. Yet another temporary U.S. government stimulus plan directed toward helping first-time home buyers caused a boost in gross private domestic investment results.

Although the U.S. government's automotive and housing economic stimulus programs have favorably affected the United States' 3Q09 economy, many businesses have still not experienced an increase in organic sales that would lead to a sustainable business expansion; therefore, government stimulus programs have only given the economy a temporary boost.

RECOMMENDATIONS

- Do not request an increase in your IT budget for 2010 based on the 3Q09 results from the U.S. Commerce Department's Report. Watch for further evidence of a sustainable business expansion. Recognize that a negative period of economic growth could occur in 2010 or 2011 (see "Return to Growth: Three Short-Term Economic Scenarios and Their IT Impacts for 2010-2011").
- Until such evidence becomes widespread, assume that 2010's IT budget will be equal to 2009's actual spending level. Include contingency scenarios in a zero-growth budget,

assuming a 5% increase above and a 5% decrease below actual 2009 IT spending levels.

RECOMMENDED READING

- "It's Time to Prepare for a Return to Business Growth"— During May 2009, Gartner advised clients to prepare their return to business growth strategies no later than July 2009. **By Ken McGee and Mark Raskino**
- "How to Prepare for the Return to Business Growth: Gartner's 'Growth' Research Agenda for Clients"— In preparing for business growth, CIOs should make choices that embrace two perspectives: outward and inward. **By Ken McGee**

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