IDC Expects Canada’s ICT Market to Face a Significant Slowdown in Technology Spending in 2020 and Beyond

TORONTO, ON., March 26, 2020 — The coronavirus outbreak across the world and the necessary containment measures put in place by governments will substantially affect the Canadian IT markets, severely accelerating the impact already felt from the supply-driven effects from Asia. In this extremely fluid scenario, International Data Corporation (IDC) now expects to see a significant slowdown in technology spending in 2020 across Canadian organizations, with IT spending expected to decline by -5.0%. As recently as December 2019, we were projecting a positive 2.4% growth rate for 2020. However, with new stringent containment and lockdown measures in place across Canada, resulting in a rapidly deteriorating economic outlook, GDP forecasts have recently been revised down sharply for Q2 and Q3. Canadian Total IT Spending Growth for 2020 Revised Down from 2.4% to -5.0% in the Most Probable IDC Canada Research Scenario

"Technology vendors and buyers are rapidly adapting to the disruption and the extremely fast-moving market conditions,"
said Nigel Wallis, Research VP, IoT & Industries at IDC Canada. "In such a rapidly changing environment, it is still too early to assess the overall impact on the Canadian IT market fully. However, given the sharp economic contraction, IDC recommends that all technology leaders recalibrate their strategies."

IDC Canada has developed three scenarios to help technology providers and buyers with their short-term business and technology investment planning. "The probable scenario assumes the coronavirus is broadly contained by June. The optimistic scenario assumes the virus is more rapidly contained, and business and investments recover quickly and accelerate in Q3. Finally, a pessimistic scenario that considers a less controlled, longer-lasting, virus 'rebound' effect through Q3 and Q4," said Tony Olvet, GVP Research, at IDC Canada.

Figure 2
In the most probable scenario, IDC projects Canadian IT spending to decline by -5.0% in constant currency terms this year, down from the 2.4% forecast published at the end of 2019. "When taking a broad historical view of Canadian IT spending across the past decade, the impact of the COVID-19 crisis is expected to exceed the levels of the 2008–2009 financial crisis. As such, it does represent the most significant deceleration in IT spending growth Canada has experienced in modern time," said Lars Goransson, Managing Director at IDC Canada.

As restrictions of movement bite, supply-chain disruption becomes commonplace, and demand drops, Canadian IT spending will drop rapidly in Q2. Particularly manufacturing, personal and consumer services, transportation, and hospitality will be sharply curbed, as these industries are the most exposed to the COVID-19 crisis impact in the short-, mid-, and long-term view. At the same time, other sectors, such as healthcare and government, will be forced to accelerate investments significantly. IDC expects this will drive additional IT investments for the public sector, pushing hard on infrastructure and collaboration tools deployments, but not before the second half of 2020."

In the most pessimistic scenario, IDC expects ICT spending to
drop and record a −8.2% decline in 2020, with all technology domains showing negative trends for the remaining part of the year. A series of domino effects, including oil price changes, currency depreciation, the inability of governments to make timely payments, delays in the supply chains and significant lay-offs would lead to a much more dramatic impact on the overall ICT market and an exponential increase in the downside risk in IDC’s market forecast assumptions. Figure 3

The new outlook is shaped primarily by lower expectations in the hardware and services markets:

- Hardware markets will suffer due to restriction measures hampering supply and overall reduced demand. Client Devices are particularly hit hard, initially because of supply constraints and in later quarters as reduced demand further erode growth.
- The most significant impact on the IT services industry will be a result of businesses postponing decisions on pending projects and slowing the execution of projects in the delivery phase.
Spending reductions on the software and telecoms markets are less pronounced, and some positive factors are expected to moderate the natural downturn somewhat. While the decrease in hardware spending will also negatively impact the overall software market to a degree, difficulties prompted by COVID-19 across industries will impact total telecommunication spending (this will be examined in forthcoming IDC Canada research). At the same time, the increasing need for remote collaboration will push telecom services demand and drive new opportunities in the collaborative applications and platforms areas, as well as an increase in security technologies that enable them.

Figure 4

The pre-existing digital maturity of industries will also be a factor impacting on their capacity to invest in technologies, regardless of their budget capabilities. Limited face-to-face business relationships between vendors and end-users will inevitably also
reduce investment in significant digital transformation projects in less mature industries, and especially for projects involving more advanced technologies. Social distancing and provincial lock downs (the duration is hard to predict) will also have significant consequences on the purchasing options for many consumers.

Additional factors weighing on investment will range from a decrease in customer demand to supply chains breaking up," said Meng Cong, Manager, Market Insights & Analytics at IDC Canada. "Nevertheless, there are areas in which spending will grow. In use cases such as patient care as well as customer, citizen, student or employee experience and proximity, we expect to see accelerated adoption of digital solutions. Specific solutions such as videoconferencing, intelligent supply, chatbots, and e-learning platforms, among others, highlight how technology can help businesses and societies address these new challenges."

Register for our Upcoming Complimentary Live Webcast IDC’s Canadian team is closely monitoring the evolution of the ICT market and its reaction to the coronavirus crisis through multiple research initiatives; this includes monthly surveys to poll Canadian digital leaders on their organizations’ digital investment plans in light of COVID-19.
scenarios. If you are interested in knowing more about this, please register for the upcoming complimentary IDC Live Webcast COVID-19 Impact in the Canadian Technology Market taking place on April 2, 2020, at 1 pm, EDT.

For more information about this press release or to arrange an interview with our analyst team, please contact Cristina Santander at askidc@idccanada.com.

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