Brexit cuts UK 2016 IT spending forecast by 10%

- **Uncertainty and economic volatility to increase over the next nine months as Brexit and concerns over the future of the EU hit investment**

Palo Alto, Shanghai, Singapore and Reading (UK) – Monday, 27 June 2016

- IT spending in the UK will be hit hard due to uncertainties and movements to reduce risk, resulting in a decline of up to 10% in 2016 and continuing into 2017
- The implications will be far-reaching and vary in certainty and timing, but a weak pound will result in immediately higher technology prices

Canalys expects the uncertain future of the trading relationship between the UK and the EU will hit UK IT spending immediately. Unemployment and inflation in the UK are low, and the economic outlook was positive. The decision to leave changes this outlook, resulting in a range of short- and longer-term implications, the extent of which will be unclear for months, if not years, as it is expected to take at least two years for the UK and the EU to negotiate exit and new trading terms. 'Canalys' IT spending forecast, based on the UK remaining in the EU, was in the range of US$90 billion to US$100 billion in the UK. Canalys now expects this to fall by up to 10% in 2016, based on the public sector and businesses cutting expenditure to reduce risk,' said Matthew Ball, Principal Analyst. 'The outlook for 2017 could be even worse, with up to a 15% decline as IT budgets are set lower on the prediction of a tough year ahead and ongoing uncertainty.'

Some effects are more imminent than others. Sterling's fall has added to its continuing volatility against the US dollar, which has been an issue since the start of the year. It could feasibly drop below the US$1.20 mark if confidence deteriorates further and capital continues to flow to safer assets. 'This will be a key issue for the IT sector, as technology prices rise due to higher import costs,' said Matthew Ball, Principal Analyst. 'In the short term, contracts will have to be renegotiated and proposals requoted due to the strong shift in value. Any new activity will be suspended until rates stabilize,' Ball added. 'International businesses will have to assess their Sterling cash position and level of exposure, as their assets will be worth less if not adequately hedged against.'

'Trade disruption, political instability, recession, stagflation, talent pool reduction and the collapse of the EU are all potential outcomes that need consideration,' said Research Analyst, Claudio Stahnke. 'The UK is taking a big gamble on its future. The unprecedented nature of the move to leave makes the true extent of the outcome an unknown. Though there are a number of different scenarios that could play out, what is certain is that we are only at the very start of defining the UK's new relationship with the EU.'

Financial markets will be volatile for at least the next six months, as different data points emerge and prominent business and political leaders pass judgment. The UK is in danger of moving into recession, as organizations and consumers look to reduce risk by delaying spending and placing an immediate suspension on all high-value transactions until the situation stabilizes.

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