

## European debt problems threaten IT recovery

- Dependence on the public sector for growth cannot be sustained

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For immediate release

Canalys today announced the results of its latest 'State of the Economy' survey, highlighting reseller concerns that the public sector would be the weakest for IT expenditure in 2010. Over 100 resellers from across Europe gave the public sector the lowest rating in terms of expected performance, behind other sectors such as education, health and small business. As rising debt levels across European governments promise significant budget cuts, the survey results echoed the analyst firm's warning to IT companies targeting the public sector to diversify for growth.

'The public sector kept money moving last year, but spending levels cannot be sustained,' said Canalys Analyst Alex Smith. 'Critical budget cuts across Europe will undoubtedly impact IT procurement: companies able to quickly target the private sector face the best prospects for the second half of 2010.'

Canalys maintains that the level of public debt in many European countries remains a serious problem for the region as a whole. While Greece has attracted much media attention due to mass rioting, several other countries, such as Hungary, Romania and Latvia, all have junk status, severely restricting their ability to borrow. Credit agencies have also downgraded Portugal and Spain, whose IT markets will surely suffer as a result.

'The biggest issue is not the size of the debt itself, but the proportion of debt to GDP, and the perceived ability to repay,' said Canalys Principal Analyst Alastair Edwards. 'After Greece, Portugal, Belgium and Italy have some of the highest levels of debt to GDP, underlining their vulnerability.'

Under a proposed fiscal austerity plan, even Europe's largest economy, Germany, will see up to €80 billion (\$96 billion) cut from its budget deficit by 2014. The UK government is currently debating its own budget spending cuts, as it faces some of the highest debt levels in recent times. These measures follow cost cutting and spending freezes by Denmark, France, Greece, Ireland, Italy and Spain.

‘It’s amazing how fast things can change,’ said Smith. ‘For example, the financial community was in tatters last year, but its huge appetite for IT and, more importantly, corresponding budget approvals to satisfy this appetite, are returning in 2010.’

Government debt fears come after a strong set of first quarter results across the IT industry and an emerging sense of optimism seems to have returned to the IT channel. Over half of all reseller survey respondents experienced a strong second quarter, with 74% expecting growth during the second half of 2010.

IT businesses, however, should be reassessing the markets and seeking out growth opportunities across different verticals, according to Canalys.

Senior executives from IT companies will be discussing these opportunities at EMEA’s largest and most influential annual channel event, the Canalys Channels Forum, being held from 5-7 October at the Hotel Arts in Barcelona. This two-day, invitation-only event will feature senior one-to-one meetings, business-savvy keynotes, research into industry and channel trends, and expert-led debates among an audience of more than 500 executives from top vendors, distribution management, leading SMB resellers and Canalys analysts. More information about the event can be found at [www.canalyschannelsforum.com](http://www.canalyschannelsforum.com).

## About Canalys

Canalys specializes in delivering high-quality market data, analysis and advice to the world’s leading technology vendors. It is recognized as a key provider of continuous advisory services and confidential custom projects for marketing managers and strategists within blue-chip IT, telecoms, navigation and consumer electronics companies. It has unrivalled expertise in routes to market for all kinds of high-technology products and services and provides worldwide market data and trends analysis.

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