

Future tense

Everyone is trying to be positive about the IT industry's prospects, but there are plenty of reasons to be cheerless, writes **Keith Humphreys**

THE MARKET WATCHERS making forecasts for 2005 have tried to be positive. The year started with the usual optimistic articles, combining good wishes for the New Year with indicators that all is well for the coming year.

Figures released by BDO Stoy Hayward and compiled by the Centre of Economics and Business Research have shown that the technology, media and telecoms sectors will see 1562 business failures this year, down by 7.2 per cent on the 1,684 in 2004.

This is positive news. But it is not conclusive.

In fact, reading further produces a gloomy outlook; it seems that this reprieve will be disappointingly short-lived. The slowdown in consumer spending is set to reduce public demand for leisure services while interest rate rises make businesses rein in non-essential spending. As a result, BDO predicts that the number of failures in the ICT market will rise over the next two years to 1,130 in 2005 and still further to 1,260 in 2006.

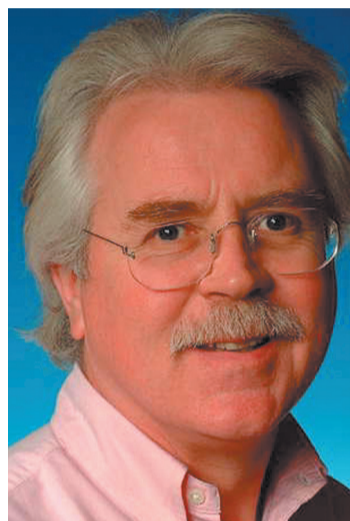
Shay Bannon, Business Recovery Services partner at BDO, explains that although the number of business failures is set to rise, they are still well below the levels of 10 years ago. "So there's no cause for panic," he says.

"Furthermore, with interest rates unlikely to increase for the moment, there is little danger that this slowdown will evolve into a recession.

"Having said this, imprudent firms could suffer if they do not reassess their company finances and ensure that adequate plans are in place to secure the future of their businesses should the worst occur."

This is getting less and less positive.

Our article of a year ago, 'IT



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industry has high hopes', highlighted a fair degree of optimism in the business community, but that was six months ago. The latest study, by McKinsey, does not share the same level of optimism; in fact it's downright gloomy.

Although the McKinsey Global Confidence Index shows that more than half of executives are still confident about the economic prospects of their industries and countries and of the world as a whole, the index has fallen by 12 per cent since January 2004.

The McKinsey findings, based on the responses of some 16,500 business people from 148 countries, confirm a spate of bad economic news. The weak dollar, volatile oil prices and geopolitical uncertainty seem to have

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depressed economic prospects around the world. For example, a respected US consumer confidence survey fell to an eight-month low in November, and in early December the Organisation for Economic Co-operation and Development forecast that in 2005 economic growth would be 10 per cent lower in the US and 24 per cent lower in the Euro zone than it had predicted just six months earlier.

The only positive notes were that telecommunications executives are among the most confident regarding the future, perhaps because the industry has worked through its debt bubble and new technologies, such as wireless LAN and voice over IP, offer new opportunities for attackers and incumbents alike.

The second interesting conclusion from the research was that India and China have changed from being the most positive about the coming six months to the least positive.

More than a third of the entire sample of executives (and nearly two-thirds of those in software and IT services) expects to hire new employees during the next six months.

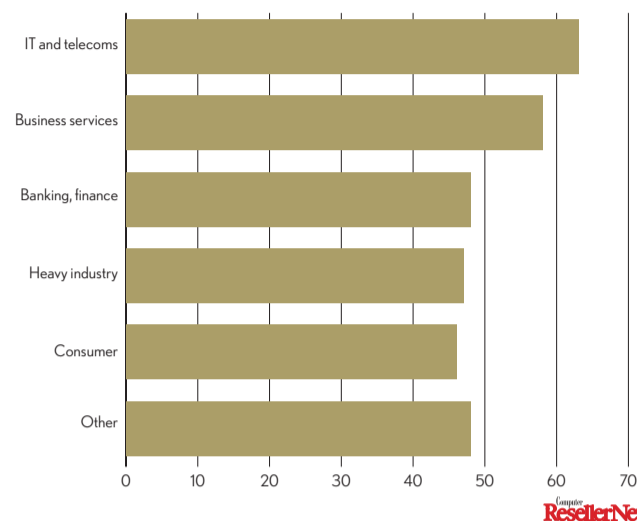
Executives at the smallest companies and at businesses in developing markets are the most disposed to hire, and they plan to hire more people than their counterparts at other companies. In fact, the biggest companies are about as likely to lay off employees as they are to hire them.

Bear in mind that this article was written at the beginning of 2005, surrounded by journalists full of new-year hope. It was not easy to break away from the positive spin. But we can only analyse, and not speculate.

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Expectations for your industry in the next six months (%)

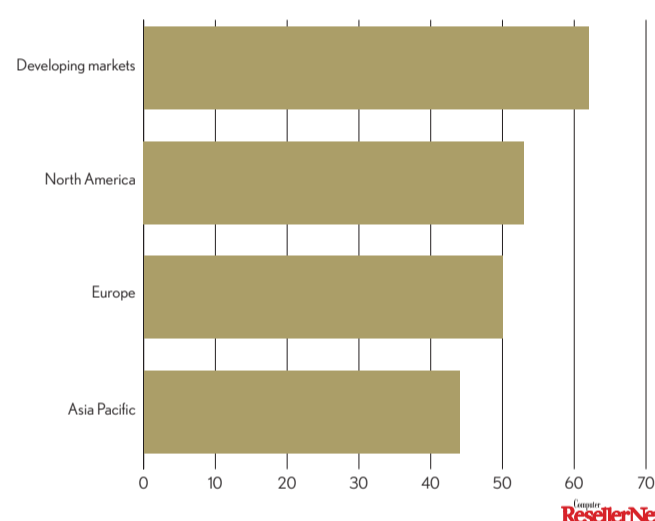
Respondents answering 'substantially better' or 'moderately better'



Source: McKinsey Associates

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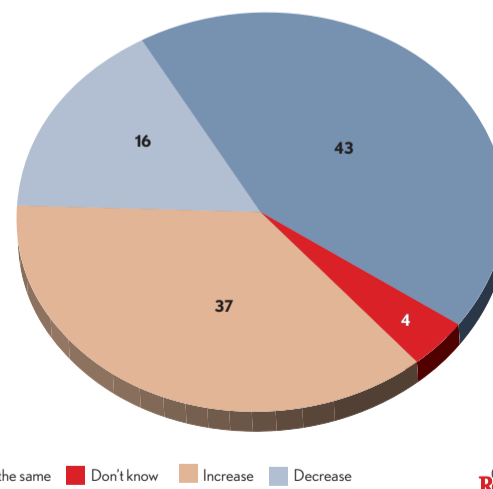
Respondents answering 'substantially better' or 'moderately better' by region



Source: McKinsey Associates

Expectations for your industry in the next six months (%)

In the next six months how do you expect your company's workforce to change?



Source: McKinsey Associates