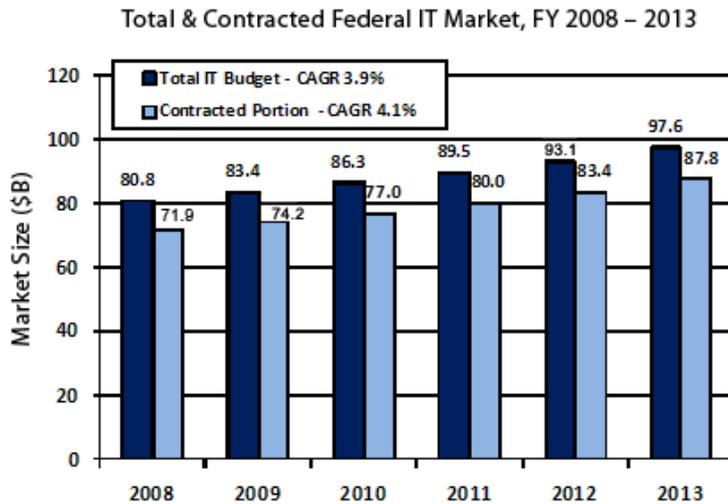


GovWin Forecast: Growth in Federal IT Spending Slows

Posted At : May 29, 2008 3:33 PM | Posted By : Richard Colven

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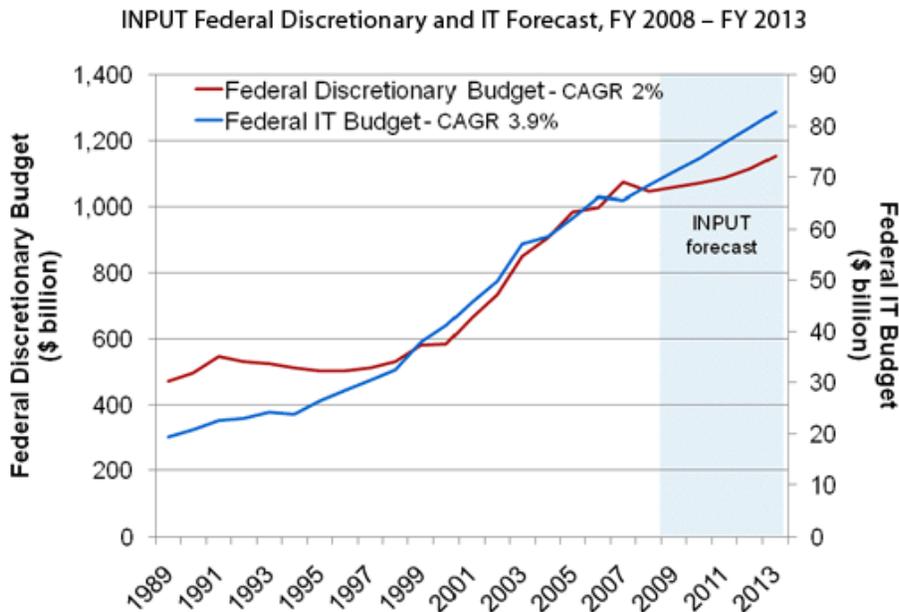
We have seen [reports](#) recently indicating the federal spending sky is falling, perhaps by double digits. While GovWin finds that conditions are not optimal, we would argue for cloudy skies -- and perhaps a fog of uncertainty -- rather than negative growth. [GovWin's 2008-2013 IT Market Forecast](#) calls for tempered momentum. As the chart below shows, our analysis estimates IT spending growing over the next 5 years at 3.9%. We also track the portion of spending that is contracted out to industry, which we see growing at 4.1%.



Source: GovWin

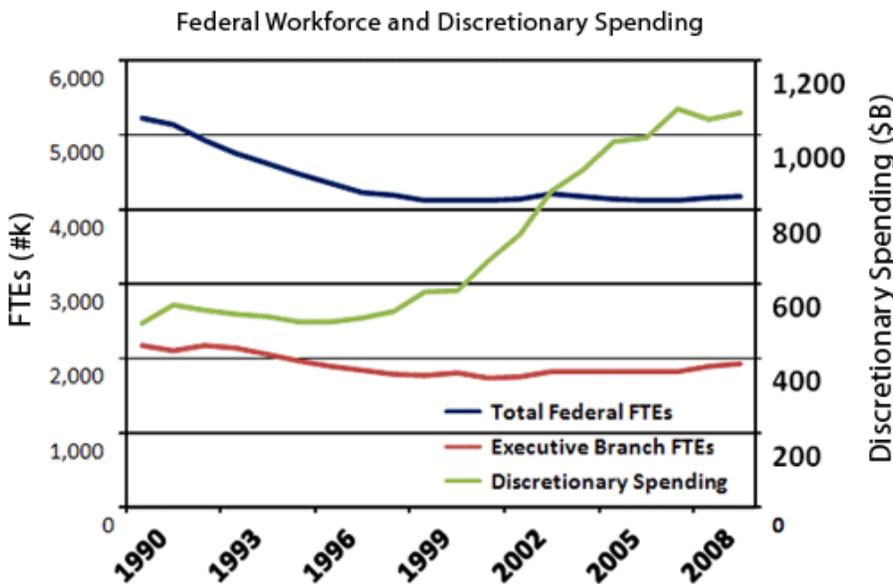
Growth from 2008 to 2009 will grow slightly slower (3.2% for the total IT market and 3.1% for the contracted portion), but once the uncertainty surrounding the administration transition and the budget chaos begins to settle, we believe IT spending growth will pick back up slightly. Two other factors weigh on the market. First, war spending will continue to constrain discretionary spending both in the DoD, which we believe will grow at a slower rate than average, and the government at large. Also, the economic downturn could create fiscal constraints on government spending. While GDP growth may be [anemic](#), however, it has not yet turned negative. And, there is equal evidence that things could get better instead of worse. While a new administration will have some tough fiscal choices before it (tax policy, rising mandatory spending), we do not agree with forecasts of negative growth in discretionary spending. Slower growth, perhaps, but still growth.

As the chart below shows, federal IT spending has grown consistently over the past 20 years, even when discretionary spending has been on the decline. In fact, as a percentage of total discretionary spending, IT spending has increased almost 2.5 percentage points since 1989. While some of this increase can be attributed to better reporting of IT, the overall trend continues to be toward much higher government reliance on IT to support the mission and reduce operating costs.



Source: OMB, GovWin

Also, we believe that the government's own human capital challenges will contribute to IT spending growth. Federal employment has been largely flat or shrinking for nearly 20 years, during which time discretionary spending has more than doubled, as seen in the chart below. Not surprisingly, agencies have been looking to industry for solutions to make up the difference. While these trends both may be moderating, we do not believe it means a downturn in the reliance on IT solutions.



Source: OMB, GovWin

So, while the outlook is cloudy, the biggest issue may be the fog. Due to uncertainty in the near term, agencies are not indicating a lot of new activity in the form of major new programs. We expect this will change after the transition as priorities and funding become clearer. In the meantime, we expect federal agencies will be paying a lot of attention to their technology, even if only to figure out how to drive costs out of steady state operations to free up funding for new work. The spending environment may seem gloomy, but aggressive vendors can still find plenty of opportunity.

Update: GovWin's 2008 -2013 IT Market Forecast has been released. Click [here](#) to purchase or download.