

Ask The Analyst

Question 6:

Gartner has reported that Q2 was the bottom of the Cap Ex cycle and that 2010 will see a return to growth for the Cap Ex industry. Do you agree?

Answer:

Following on from our answer to a similar question last week, taking the first part first, we actually believe that Q3-09 will be worse than Q2 given (a) the current absolute spend rate is essentially flat and the front-end book to bill ratio is still less than 1 so billings can only continue to decline until the ratio goes over 1 with the corresponding billings improvement seen roughly one quarter later. That puts Q3 as the earliest possible bottom on the current cap Ex Cycle, not Q2. As for the second part, this is simply a statement of obvious fact. With current spending so low, there is only one way for cap Ex to go and that's up. The real question is not will 2010 grow but by how much? Forget any forecast in the 20 percent region ... any growth number for 2010 lower than '100 percent' would be an absolute disaster for the whole industry