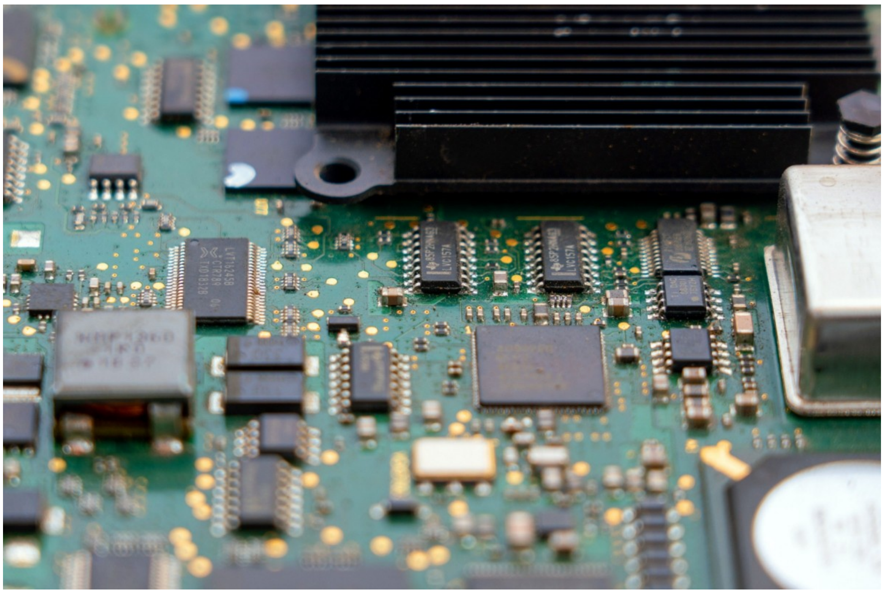
A bright future ahead for Dutch IT services

Demand for cybersecurity services is on the rise – and with it the growth of the Dutch IT service sector. Labour shortages and rising wages are proving a major challenge, but businesses appear to remain optimistic. Could artificial intelligence offer a magic fix?



The slower pace of the Dutch economy, persisting labour shortages and rising wages all present major challenges to the growth of the sector

A promising outlook

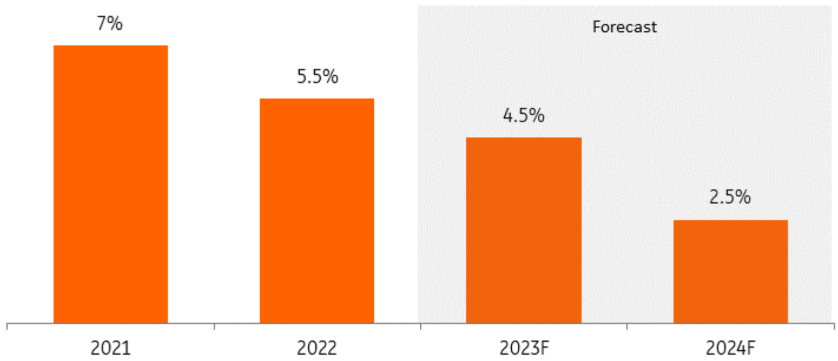
The Dutch IT services sector is expected to grow by 4.5% in 2023 and 2.5% in 2024. Despite a slightly lower growth rate than in both 2021 and 2022 (during which the Covid-19 pandemic led to the rapid adoption of digital products and services) the sector still shows strong growth compared to GDP. Growth is largely driven by the continued demand for cybersecurity services, as well as the need for automation and the outsourcing of IT services and infrastructure such as off-premise data centres.

According to research firms such as IDC and Gartner, Western European companies are planning to increase their spending on IT services by 5% to 8%, and Canalys expects spending on cloud infrastructure to increase by 19% in 2023. Dutch IT service providers benefit from these trends, as the Netherlands plays a crucial role in the European cloud infrastructure.

We expect the sector to show continued growth through the remainder of this year and into 2024

However, the sector isn't growing without restrictions – namely, the slower pace of the Dutch economy, persisting labour shortages and rising wages. There was even a moment when the Dutch IT sector appeared to shrink in the first quarter of 2023 due to declining demand for IT equipment. After revisions by CBS, however, it has become evident that the sector is at least experiencing modest growth. In short, we expect it to continue growing through the remainder of this year and into 2024.

Continued growth for IT services



Source: ING Research, CBS

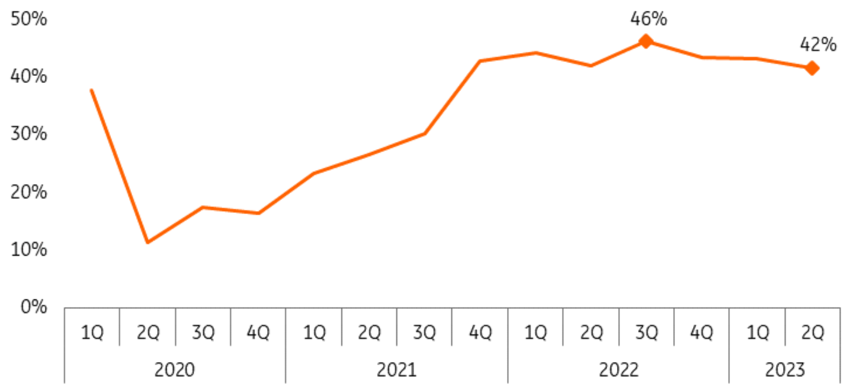
The labour shortage challenge persists

The percentage of companies experiencing staff shortages as the biggest challenge to further growth remains high. In the second quarter of 2023, a staggering 42% of entrepreneurs stated that the labour shortage was the primary obstacle to growth. While slightly lower than the peak in the third quarter of 2022 (46%), finding skilled workers remains a structural challenge in the IT sector.

Most IT entrepreneurs still remain optimistic about the future, with a large majority (88%) expecting to either maintain or increase their investments this year. Nonetheless, the percentage of entrepreneurs experiencing insufficient demand as the main growth impediment increased by 4% to 13% for all companies. On the other hand, 85% of the sector's businesses saw improvements or increased stability in profitability in the second quarter of 2023.

43% of entrepreneurs cite ongoing labour shortages as the primary obstacle to growth

Percentage of IT companies that sees labour shortage as biggest challenge to growth



Source: CBS

Could AI be the magic fix?

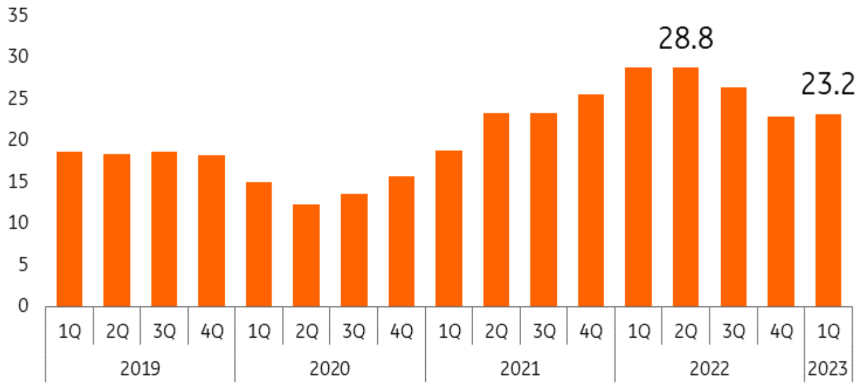
Given the severe labour shortage, it is not surprising that the number of job vacancies in the TMT sector remains high. The number of open vacancies increased slightly by approximately 300 in the first quarter of 2023, and we're seeing a particular shortage of developers.

> *AI provides opportunities to overcome the labour shortage, but it does not offer an immediate solution*

Several IT service providers are now discussing whether a portion of this shortage can be addressed in the future through the use of artificial intelligence. Generative AI, for example, is already capable of writing code. AI provides opportunities to overcome the labour shortage, but it does not offer an immediate solution. There is still a lot of uncertainty regarding the reliability and safety of AI applications, including issues of liability in case of failures. Additionally, there is a risk that employees may not understand the code being generated, which could lead to excessive dependence on AI.

Number of vacancies in TMT sector remains high

Number of vacancies in the Dutch TMT sector (x1000)



Source: CBS

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