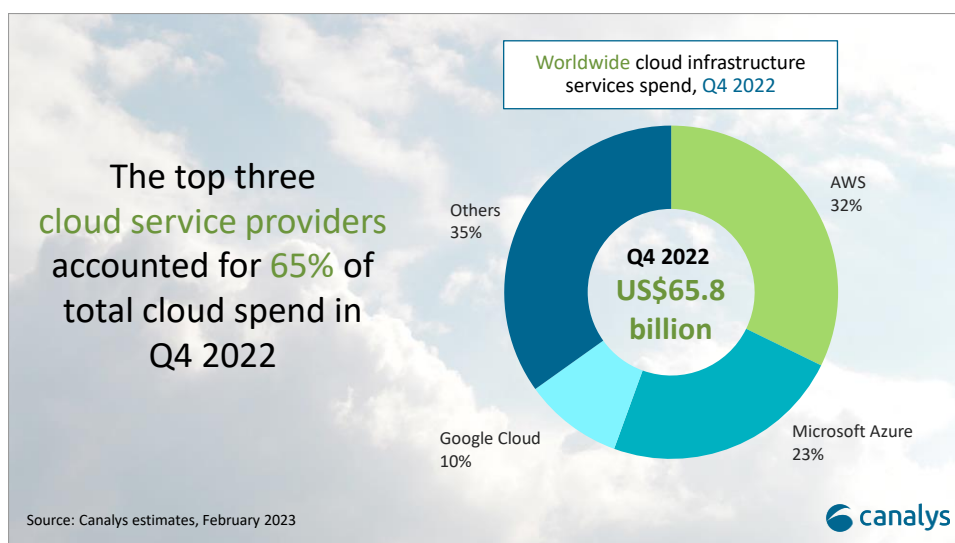


Worldwide cloud service spend to grow by 23% in 2023

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Worldwide cloud infrastructure services expenditure grew 23% year on year in Q4 2022 to reach US\$65.8 billion, an increase of US\$12.3 billion. For full-year 2022, total cloud infrastructure services spend grew 29% to US\$247.1 billion, up from US\$191.7 billion in 2021. The quarterly growth rate slowed, down over 10 percentage points from Q1 2022 (34% in Q1 2022 against 23% in Q4 2022). Rising public cloud costs, fueled by inflation, are forcing enterprise customers to optimize public cloud spend after constant IT investment over the past three years in digital transformation. Macroeconomic uncertainties are contributing to a more conservative approach to IT budgets. A growing number of customers are adjusting cloud strategies for greater efficiency and control. That includes assessing the repatriation of certain cloud workloads to private or co-location data centers to reduce costs, driving greater adoption of hybrid and multi-cloud strategies. While enterprise demand for cloud services persists, the growth rate for cloud infrastructure services will continue to slow for the next few quarters. In 2023, Canalys expects global cloud infrastructure services spend to increase by 23% for the full year, compared with 29% in 2022.



The realities of worsening macroeconomic conditions and the looming recession prompted a slowdown in the volume and pace of migration to the cloud in Q4, especially by enterprise customers, which typically have larger workloads. The hyperscalers were inevitably affected, with their growth falling by about 5 percentage points from the previous quarter. The top three in Q4 2022, AWS, Microsoft Azure and Google Cloud, collectively grew 26%, to account for a combined 65% share of customer spend.

“Enterprise customers are responding to higher cloud prices and higher-than-expected operating costs under the tough macroeconomic conditions,” said Canalys Research Analyst Yi Zhang. “Customers that are currently on pay-per-use billing models will optimize cloud activities to reduce cloud consumption and save costs. There will also be a considerable slowdown in the take-up of cloud contracts, which will also result in a decrease in associated cloud revenue.”

“Customers are rethinking how they use cloud in their business operations,” said Canalys VP Alex Smith. “In some cases, there is a natural slowdown in compute demand as core operations see less activity. In addition, conservative budgeting among businesses will lead to less experimentation during the next 12 months.”

AWS led the cloud infrastructure services market in Q4 2022, accounting for 32% of total spend. It grew 20% on an annual basis, an all-time low growth rate for AWS, according to Canalys estimates. The decline of enterprise customers’ spending, combined with rising server energy and operating costs, resulted in an increasingly negative impact on its profitability. But AWS continues to actively invest in its channel ecosystems to expand its reach and acquire new customers. This quarter, AWS announced new customer wins with headline names including Nasdaq, Yahoo and Descartes Labs. In terms of capital investment, it launched AWS Regions in Spain and Switzerland, as well as a second Region in India to continue growing AWS’ infrastructure footprint.

Microsoft Azure held 23% of the global cloud infrastructure services market and remained the second-largest provider after growing 31% year on year. Though seeing moderated consumption growth in Azure, its revenue is expected to be steady as its backlog commitment grew to US\$189 billion in Q4 2022. Azure continues to lead the hybrid computing market with Azure Arc as more customers move to hybrid cloud services. It announced that it has more than 12,000 Azure Arc customers, double the number a year ago, including companies such as Citrix, Northern Trust and PayPal. Microsoft is also placing a big bet on AI as a driver of Azure growth, following its announcement as the exclusive cloud provider for OpenAI to run its AI services including ChatGPT, and further integration with ChatGPT expected.

Google Cloud was the third largest cloud service provider, and outpaced both AWS and Azure with growth of 36% year on year to account for 10% of the market. Google Cloud continues to report operating losses, but losses were reduced. Its differentiated products and focused go-to-market strategy are helping to drive customer momentum. Google Cloud committed to deeper engagement with its channel partner community to drive growth in 2023. The onboarding of key customers, including the likes of Siemens Energy, Intel, Qualcomm and Magic Leap, continued to bring in steady revenue growth in 2022. In its efforts to improve profitability, Google Cloud announced an initiative to extend the lifecycle of its servers and networking equipment to six years to reduce depreciation costs over the next few quarters.

[Canalys defines cloud infrastructure services](#) as those that provide infrastructure-as-a-service and platform-as-a-service, either on dedicated hosted private infrastructure or shared public infrastructure. This excludes software-as-a-service expenditure directly but includes revenue generated from the infrastructure services being consumed to host and operate them.

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