Google Cloud revenue misses expectations despite AI boom

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Google is doing well, but not well enough for investors. On Tuesday, parent company Alphabet reported stronger-than-expected overall revenue for the quarter but missed analyst expectations in its closely watched Google Cloud business. Alphabet stock fell in after-hours trading despite strong third-quarter earnings announced on Tuesday following months of modest growth. It reported third-quarter revenue of $76.69bn, up 11% year over year and above analyst predictions of $75.9bn. YouTube, which has struggled to compete with competitors like TikTok, beat analyst expectations with a revenue of $7.95bn compared to an expected $7.81bn. Daily views on Shorts, the company's short-form video answer to TikTok, have risen to 70bn a day, up from 50bn at the beginning of the year. In a call with investors, the company's chief executive, Sundar Pichai, announced new features for Shorts, including AI-powered tools for editing videos. Despite the gains, Google Cloud revenue was a miss at $8.41bn compared with a predicted $8.64bn, stoking investor concerns that the company risks falling further behind competitors like Amazon and Microsoft, cloud-computing behemoths in their own right. The slump wasn't industry-wide; Microsoft's Azure grew rapidly in the third quarter and propelled the company to higher-than-expected revenue and profit. In recent reports, Alphabet has highlighted its focus on artificial intelligence – a technology it has long pioneered and integrated into tools like Search. In a statement, Pichai attributed the overall growth this quarter to Alphabet's integration of artificial intelligence across nearly all of its sectors. "We're continuing to focus on making AI more helpful for everyone. There's exciting progress and lots more to come," he said, noting that despite the miss, Cloud revenue was up 22% year over year. Still, the miss has cooled some of the hype around AI as a saving grace for Alphabet, whose advertising revenue has struggled in recent years amid a broader economic downturn. It comes after Cloud previously exceeded expectations, turning a profit in the first quarter of this year for the first time since its launch in 2008. "Cloud computing is a much lumpier business than advertising, and one where Google is facing stiff competition," said Max Willens, a senior analyst at the market research firm Insider Intelligence. "While the traction it has among AI startups may bear fruit in the long run, it is not currently helping Google Cloud enough to satisfy investors." In addition to the economic headwinds affecting Alphabet's advertising business – by far its biggest source of revenue – investors are wary of a landmark antitrust lawsuit brought against the company by the US government over monopolization of online search . The suit is ongoing. Amid the downturn, Alphabet has made a series of cost-saving measures this year, announcing in January it would cut more than 12,000 jobs, or 6% of its global workforce. In September, the company eliminated hundreds more roles in its recruiting segment and cut back on hiring. An internal memo in March revealed Alphabet would also be eliminating some employee perks. Just last week, Google cut jobs at its Waymo self-driving car subsidiary and at Verily, its biotech business. In addition to layoffs within the company, Alphabet has shaken up its C-suite. Tuesday’s report marks the first since its chief financial officer, Ruth Porat, announced she would be departing her role and taking up the newly created position of “president and chief investment officer”.