Operator

Ladies and gentlemen, thank you for standing by. And welcome to the Alphabet First Quarter 2020 Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. [Operator Instructions]

I would now like to hand the conference over to your speaker today, Jim Friedland, Director of Investor Relations. Please go ahead.

Jim Friedland

Thank you, Candice. Good afternoon, everyone, and welcome to Alphabet's first quarter 2020 earnings conference call. With us today are Sundar Pichai and Ruth Porat.

Now, I'll quickly go over the Safe Harbor. Some of the statements that we make today regarding our business, operations and financial performance, including the effect of the COVID-19 pandemic on those areas, may be considered forward-looking and such statements involve a number of risks and uncertainties that could cause actual results to differ materially. For more information, please refer to the risk factors discussed in our most recent Form 10-K filed with the SEC and in our Form 10-Q for the quarter ended March 31, 2020 expected to be filed with the SEC later today.

During this call, we will present both GAAP and non-GAAP financial measures. A reconciliation of non-GAAP to GAAP measures is included in today's earnings press release, which is distributed and available to the public through our Investor Relations website located at abc.xyz/investor.

And I'll now turn over the call to Sundar.

Sundar Pichai

Thank you, Jim, and good afternoon, everyone. When I last spoke with you in early February, no one could have imagined how much the world would change and how suddenly. Our thoughts are with everyone who has been impacted by COVID-19, especially those who have lost loved ones or their livelihoods. It's a challenging moment for the world.

Through it all, we are incredibly grateful for all of the essential workers on the frontline of this crisis. From healthcare workers and first responders, to the grocery store clerks and delivery workers, to teachers grappling with new technology to help children learn remotely, to all the scientists and researchers working hard to develop vaccines and treatments, and many others who are leading through these difficult times. Thank you.

These people fill us with hope and show us the power of human resilience. We'll need that energy and resolve in the months and years ahead. Today, there is still a great deal of uncertainty regarding the path to recovery. But there are some things that we can understand better with the patterns we are seeing. For example, it's clear from data that people are being more cautious and are seeking authoritative advice and guidance to protect their family's health and safety.

A return to normal economic activity depends on how effectively societies manage the spread of the virus. There is no one-size-fits-all, and the timing and pace of recovery will vary from location to location. This is a long-term effort. It's also clear that this is the first major pandemic taking place in a digital world.

Many parts of the economy are also able to continue with some semblance of normalcy. Thanks to advances in remote work, online shopping, delivery options, home entertainment and telemedicine. At the same time, newer technologies like AI, Bluetooth exposure notifications and 3D printing are being used to help fight the disease head on.

It's now clear that once the emergency is past, the world will not look the same. Some social norms will change and many businesses are speaking to us, looking to reinvent their operations. We have seen that the most pressing concern of small and large businesses right now is business continuity, solving for issues like employee safety, dramatic falls or surges in demand, supply chains and managing a remote workforce.

Ultimately, we'll see a long-term acceleration of movement from businesses to digital services, including increased online work, education, medicine, shopping and entertainment. These changes will be significant and lasting.

Given the depth of challenges so many are facing, it's been a huge privilege to be able to help people and businesses at this moment. In today's call, I'll cover 4 areas. First, I'll mention some of the ways we have marshaled our resources and product development to help. Second, I'll talk about how people are using our products at this unprecedented moment. Third, I'll talk about our business, especially our advertising business, which was significantly impacted in the last few weeks of the quarter. And I'll close with our investment plans and focus for the rest of the year.

In the early days of the crisis, we were able to put in motion a number of efforts quickly. This is a testament to strategic areas where we have invested over recent years, products that people trust, our technical leadership and innovation, deep partnerships, a highly skilled workforce, and the scale and resilience of our operations.

I've been proud of all these efforts and what they say about our company. I'll give just a few examples. First, we've been working with healthcare providers, researchers, authorities and communities to help combat the virus. Our Community Mobility Reports help authorities see in aggregate how social distancing requirements are working.

Verily has tested thousands of people in California and has partnered with Rite Aid to bring free testing to 8 additional states. Good Cloud is forming deep partnerships, such as with leading healthcare provider, HCA Healthcare to understand data around ICU bed availability, ventilator supplies and test results.

And you may have read about our exposure notification partnership with Apple, designed specifically and carefully to protect users' privacy, while helping public health authorities and governments manage countries reopening. Second, we are working hard to provide accurate and authoritative information to people using our services.

In Search, we have launched a number of features, such as up-to-date answers from health authorities and remote medical care options. On YouTube we are quickly removing content that violates policy, and raising authoritative content from news organizations and experts.

Up to last week, our COVID-19 info panels have had 20 billion impressions. Third, we are playing a role in supporting businesses and workers that are hurting because of the downturn. In March, we made a commitment, upwards of $800 million to support small businesses and crisis response efforts through a combination of grants, small business loans and ad credits.

And the Google News Initiative is offering financial support to thousands of small, medium and local news publishers through a Journalism Emergency Relief Fund. We have also waived ad serving fees for news publishers globally on Ad Manager for the next 5 months.

Turning to the way people are using our products. People are relying on Google services more than ever. This is a strong recognition of the value of our products, particularly in important and urgent moments. As a few examples, we have seen a significant raise in search activity. To put it into perspective, in the U.S. coronavirus related search activity at its peak was 4 times greater than during the peak of the Super Bowl.

People are spending significantly more time on their Android apps with downloads of apps from Google Play rising 30% from February to March. YouTube watch-time has also significantly increased. One area in particular is live streams. I hope you saw Andrea Bocelli on YouTube live on Easter, which just had over 39 million views and it was truly beautiful.

100 million students and educators are using Google Classroom, double the number from the beginning of March. We have seen a massive increase in demand for Chromebooks. Analysts have reported 400% increase during the week of March 21 year-over-year. And schools and businesses in particular are using our secure video conferencing platform, Meet.

Last week, we surpassed a significant milestone and are now adding roughly 3 million new users each day and have seen a 30-fold increase in usage since January. There are now over 100 million daily Meet meeting participants. Stay tuned for much more.

Turning to our business, let me touch on our performance this quarter. Q1 was in many ways the tale of 2 quarters. For our advertising business, the first 2 months of the quarter were strong. In March, we experienced a significant and sudden slowdown in ad revenues. The timing of the slowdown correlated to the locations and sectors impacted by the virus and related shutdown orders.

As the impact of COVID-19 came into view, we delayed some ad launches and prioritized supporting our customers as many adjusted their strategy. We are focused on products where we can help most advertisers and merchants during the crisis. For example, under our new leader of commerce, Bill Ready, last week, we announced that merchants can list products in Google shopping for free. It’s been widely rolled out in the U.S. with more countries to come and the response has been positive.

Overall, recovery in ad spend will depend on a return to economic activity. There are 2 key aspects of our business that give us confidence about the future. First, as we saw after 2008, one of the strongest features of Search is that it can be adjusted quickly, so it’s relatively easier to turn off and then back on, and marketers see it as highly cost effective and ROI based.

Second, our business is more diversified than it was in 2008. For example, Cloud. In the public sector, we are helping governments delivered critical health and social services. We are supporting the state of New York, new online unemployment application system as it deals with a significant increase in demand.

In retail, we have held Loblaw, one of Canada’s largest food retailers, and Wayfair, scale to support exponential traffic increases. We are helping communication companies adapt to new behavior patterns. Vodafone is using Google Cloud platform to help that analyze network traffic flows to keep everyone connected, and we are helping Unity Technologies keep real time online games stay up and running.

Institutions like Lloyds Bank are digitally transforming their businesses, and we are helping even more businesses do the same to new partnerships with Accenture, AT&T and T-Systems. We now have more than 6 million paying G Suite customers. G Suite is helping Netflix and German manufacturer, Kaeser Compressors, transition quickly to remote work, while Twitter, Shopify, Retailer Schnucks and Italian bank Credem are using Meet for things like all-hands and customer meetings, elsewhere across the business.

YouTube subscriptions continue to grow, the team has launched YouTube Kids in 15 new countries around the world since the beginning of the year and rolled out new features to make kids focused channels safer.

Android previewed Android 11, which includes seamless 5G connectivity and a smarter keyboard with a faster messaging experience. And as I mentioned, we have seen significant growth in play. There are now over 2.5 billion monthly active play devices worldwide. And in hardware, we saw a decline in device activations in the quarter due to falling customer demand globally. But I'm excited about the product roadmap ahead for the year, including yesterday's launch of Pixel Buds 2.

Finally, moving on to our focus for rest of the year. We are taking a long view and continuing to invest in our long-term priorities, but are being thoughtful in the short-term. So we made the decision to slowdown the pace of hiring in the reminder of 2020, while maintaining momentum in a small number of strategic areas.

We are also recalibrating the focus and pace of our investments in areas like data centers and machines, and non-businesses essential, marketing and travel. We'll also continue to thoughtfully manage our Other Bets portfolio. Waymo raised $2.25 billion in its first external investment round, a terrific validation of their technology and long-term business model. Wing saw a surge in deliveries and new users, increasing its daily volume fivefold with great momentum in test programs in Australia and Virginia.

At Google, we'll continue to be focused on the 4 key areas that I outlined in the last earnings call. First, creating the most helpful products for everyone, particularly at a time where people rely on us for information, work, education and entertainment. Second, providing the most trusted experiences for our users. This includes our efforts to tackle misinformation and digital threats as well as our work to safeguard consumer privacy.

Third, executing at scale, I've been proud of how we continue to work so cohesively and productively even with the distributor workforce. We'll continue to build on the internal tools, support systems and infrastructure we have built over the years. And finally, creating sustainable value, we'll be optimizing the way our data centers work and prioritizing strategic areas of investment where we need to support our users and partners.

Let me express my thanks to our employees for their herculean effort under these difficult circumstances. While the road ahead for everyone is uncertain, we'll continue to support our users, communities and partners and will all emerge together from this moment. Thank you and please take care, everyone. Over to Ruth.

Ruth Porat

Thanks, Sundar. Our results for the first quarter are a tail of 2 quarters with strong results across our revenue lines for January and February followed by an abrupt decline in March in our advertising revenues, as governments globally instituted stay at home orders in response to COVID-19. At the same time, even through March, our non-advertising revenue lines maintain their strong performance, particularly Google Cloud. I'll provide more details on the impact of the crisis as I review the Google segment revenue results and conclude with an update to the outlook that I shared on our fourth quarter call. Sundar and I will then your questions.

Starting with consolidated Alphabet results. In the first quarter, our total revenues were $41.2 billion, up 13% year-on-year and up 15% in constant currency, driven by Search, YouTube and Cloud. Details of Alphabet's consolidated revenues by geographic region are available in our earnings press release. In short, advertising results reflect, in large part, the nature and timing of actions around the globe in response to COVID-19.

The decline in APAC was more muted than what we have seen in the rest of the world given the uneven impact of COVID as well as the composition of our revenues in the region. The impact in the rest of the world began later and was more acute by the end of the quarter. In terms of the foreign exchange impact, exchange rate movements resulted in a modest headwind to reported revenues.

Regarding our key expense lines, on a consolidated basis, total cost of revenues including TAC, was $19 billion, up 19% year-on-year. Other cost of revenues on a consolidated basis was $11.5 billion, up 26% year-over-year primarily driven by Google-related expenses. The biggest factors here again this quarter were costs associated with our data centers and other operations, including depreciation, and then content acquisition costs, primarily for YouTube's advertising supported content followed by content costs for YouTube TV and our paid YouTube music and premium subscription services.

Operating expenses were $14.2 billion with headcount growth being the largest driver of year-on-year growth for R&D and sales and marketing expenses. For G&A, the biggest driver of expense growth was attributable to a reserve for estimated credit deterioration as a result of COVID-19.

Stock-based compensation totaled $3.2 billion. Headcount was up 4,149 from the fourth quarter. Again the majority of new hires were engineers and product managers. In terms of product areas, the most sizable headcount increases were again in Google Cloud for both technical and sales roles. Operating income was $8 billion, down 4% year-over-year, excluding the impact of the EC fine in the first quarter of last year for an operating margin of 19%.

Other income and expense was a loss of $220 million driven primarily by losses in equity securities. We provide more detail on the line items within OI&E in our earnings press release. Our effective tax rate was 11.9%. Net income was $6.8 billion, and earnings per diluted share were $9.87.

Turning now to CapEx and operating cash flow. Cash CapEx for the quarter was $6 billion, which I will discuss in the Google segment results. Operating cash flow was $11.5 billion with free cash flow of $5.4 billion. We repurchased $8.5 billion of our shares. We entered the quarter with cash and marketable securities of approximately $117 billion.

Let me now turn to our segment financial results. Starting with our Google segment. Revenues were $41 billion, up 14% year-over-year. I'll now go through the individual advertising revenue lines. Starting with Google Search and other advertising revenue, we generated $24.5 billion in revenues in the quarter that was up 9% year-over-year. This reflects strong year-on-year growth for the first 2 months of the quarter.

In March, revenues began to decline and entered the month at a mid-teens percentage decline in year-on-year revenues, although, users' search activity increased, their interest shifted to less commercial topics. In addition, there was also reduced spending by our advertisers.

YouTube advertising revenues were $4 billion, up 33% year-on-year. Significant YouTube revenue growth persisted until late in the first quarter with different performance trajectories for the brand and direct response components. Direct response continued to have substantial year-on-year growth throughout the entire quarter. Brand advertising growth accelerated in the first 2 months of the quarter, but began to experience a headwind in mid-March. As a result by the end of March, total YouTube ads revenue growth had decelerated to a year-on-year growth rate in the high-single-digit.

Network advertising revenues were $5.2 billion, up 4% year-on-year with healthy year-on-year growth for the first 2 months of the quarter. We ended March at a year-on-year percentage decline in network revenues in the low-double-digits.

Turning to Google Cloud, including GCP and G Suite. Revenues were $2.8 billion for the first quarter, up 52% year-over-year, driven by significant growth at GCP and ongoing strong growth at G Suite. Once again, the growth rate of GCP was meaningfully higher than that of cloud overall. GCP growth was led by our infrastructure offerings in our data and analytics platform. We're pleased with the ongoing growth in G Suite, which continues to reflect growth in both seat count and average revenue per seat.

With respect to the implications of the global crisis for Google Cloud, we're proud of the accelerated traction we achieved across sectors, including public sector and healthcare for disease monitoring and control, working with leading retailers on demand forecasting working with companies across media and communications to enhance their customer service and across industries on supply chain optimization.

In the first quarter, other revenues were $4.4 billion, up 23% year-over-year, primarily driven by growth in YouTube non-advertising revenues and play. YouTube's contribution to other revenues benefited from subscriber growth across its various offerings. Within Play, app revenues continue to benefit from strong growth in the number of active buyers in the first quarter. In addition in the latter part of the quarter we started to see an increase in user engagement in apps as well as in digital content.

Total Traffic Acquisition Costs were $7.5 billion or 22% of total advertising revenue and up 9% year-over-year. Total TAC as a percentage of total advertising revenues was down slightly year-over-year, reflecting once again of favorable revenue mix shift from network to Google properties.

Google operating income was $9.3 billion, up 1% versus last year and the operating margin was 23%. Google accrued CapEx for the quarter was $5.7 billion, reflecting investments in data centers followed by servers and office facilities.

Moving on to the performance of Other Bets, for the first quarter, revenues were $135 million, primarily generated by Fiber and Verily. Operating loss was $1.1 billion for the first quarter.

Let me now conclude with our thoughts on the impact of the global crisis on our revenues and investments including an update on the outlook I shared on our fourth quarter earnings call. We remain optimistic about the underlying strength of our business over the long-term.

On a daily basis, our products play an important role for consumers and businesses globally. This has been evident throughout the crisis and the usage metrics that Sundar referenced earlier. We're humbled that users continue to turn to us as much as they do and a time of global need and uncertainty. We take that responsibility very seriously.

Users clearly are depending on us to provide useful and accurate information. They are looking to YouTube for information, education and entertainment constantly as they study, create and work from home. They are using our G Suite products to collaboratively communicate, connect and work.

Although users may not be focused as much on purely commercial activities right now, over the long term, the value we provide to billions of users globally serves us well. Our previous investments in technical infrastructure ensure that we have the capacity and resilience to meet the increased demand from our users in this extraordinary time.

We are redoubling our efforts to help our advertising customers and partners by sharing insights and developing new tools to keep them connected to their customers and help them be best positioned for recovery. In terms of more specific product points, I will start with Search advertising where our financial results are driven in part by users' search behavior.

At the inception of the crisis, the increase in user interest was for information about COVID-19 and related non-commercial topics. Although we have seen some very early signs of recovery and commercial search behavior by users, it is not clear how durable or monetizable this behavior will be.

In order to gauge the ongoing potential financial impact to our business from COVID-19, a key signal to monitor is macroeconomic performance which is tended to be correlated with advertising spend. As of today, we anticipate that the second quarter will be a difficult one for our advertising business.

As we move beyond the crisis and the global economy normalizes, this should be reflected in our advertising revenues. But it would be premature to comment on timing, given all the variables here.

In terms of Google Cloud, we remain very pleased with the execution by the team, reflected in the ongoing pace of customer adoption of both GCP industry-specific solutions and G Suite collaboration tools to help businesses operate efficiently and effectively.

Moving on to profitability, while TAC and content acquisition costs are obviously tied to revenues, there is a sizable percentage of items in other cost of revenues that are generally less variable in nature, such as depreciation and operations costs of our technical infrastructure as well as for activities like customer support and content review.

Much of our operating expense is also not directly correlated to changes in revenues. Given that we are faced with a global crisis of uncertain depth and duration, we have been focused on taking steps to enhance efficiency, including slowing the pace of hiring in some categories of marketing spend as well as further enhancing machine utilization.

More specifically, with respect to the pace of hiring, last quarter, I indicated that the rate of headcount growth in 2020 would be slightly higher than the 20% growth in 2019. We now anticipate a deceleration in headcount growth that should start to be visible in the third quarter and continue into the fourth quarter.

Although we are focused on these and other steps to moderate the overall pace of investment, we remain committed to the long-term opportunities for which we are well positioned, so we will continue to invest in these areas, including Search, Machine Learning and Google Cloud.

Finally, with respect to CapEx, on the fourth quarter call, we shared our expectation that investments in both technical infrastructure and office facilities would increase compared to 2019. We now anticipate a modest decrease in the level of total CapEx in 2020 compared with last year.

The biggest change in our outlook is the reduction in global office facility investments, due to both the need to pause most of our ground-up construction and fit-outs in response to COVID-19 and our decision to slow down the pace at which we acquire office buildings. In terms of technical infrastructure, we expect a moderate reduction to our forecast relative to the beginning of the year, given the impact of COVID-19 on data center construction delays, as well as the benefit of our ongoing focus on server efficiency.

Overall, we anticipate technical infrastructure investment to remain at roughly the same level as in 2019 with relatively more spend on servers than on data center construction.

Thank you. And Sundar and I will now take your questions.

Question-and-Answer Session

Operator

Thank you. [Operator Instructions] And our first question comes from Eric Sheridan from UBS. Your line is now open.

Eric Sheridan

Thanks for taking the question and hope all is safe and well with everyone on the team there at Alphabet. 2 questions if I can. One, on the comment with respect to direct response advertising on YouTube, would love to get a little more color on how direct response advertising's ad units continued to evolve and perform, and how advertisers are using those ad units as part of their broader advertising goals.

And then maybe, Ruth, for you, on the comment on expenses, just want to understand a little bit of how much of what your messaging on expenses is efficiency gains that you were aiming for in 2020 before we got to COVID-19 versus elements of the cost structure that you're reexamining as a result of the pandemic. Thanks so much.

Sundar Pichai

Eric, thanks, thanks for the wishes. On YouTube direct response, we've definitely seen traction there. I think an area where it really works well for example is app installs, it's a great example of it. Gaming is another good example of it. And we are working on iterating and making the format work better, so that it applies to more contexts as well.

But, in general, I think businesses are learning to adapt. Obviously, we've had great success with Search and so we're bringing a lot of those learnings and we're sharing it with our customers. And so, we expect to see more traction there over time.

Ruth Porat

And on your second question, I like the way you framed it. Yes, we do have efficiency efforts that we started, that we had going as we enter this year. But as a result of what we're seeing in the environment, our view was that we should really double-down on those. And so, when we go through the various areas that I mentioned, we had started the year with an expectation about really optimizing headcount around the various areas.

What we've determined is we're going to at this point slow the pace of hiring. To be very clear, we are continuing to hire, but we are slowing the pace of hiring. And that's helping as we're driving a deeper look into how do you optimize within each area. The same is true for example in some of the comments on marketing.

We are continuing to invest in marketing. As you know well, sales and marketing line, the majority of it is headcount related and we do continue to invest here in ads, and in particular, in Cloud. As it relates to the marketing component, namely ads and promo spend, we did reduce it relative to our plans in the beginning of the year. And we continue to have a healthy budget for ads and promo, particularly in digital to support many business areas.

But as with the other areas of investment, we're really focused on optimizing across products and services. And with physical events canceled for much of the year, marketing spend is also reduced. And so, that's another example. With machines and servers, we've been focused on efficiency of the fleet for some time now. This is giving us the opportunity to push that even further.

So we're looking at the operating environment and saying we should continue to lean into the efficiency programs. We can. It does help us free up some resources for the growth areas that continue to be a priority, but it is an accentuation of where we were.

Eric Sheridan

Thanks so much.

Operator

Thank you. And our next question comes from Doug Anmuth from JPMorgan. Your line is now open.

Doug Anmuth

Great. Thanks for taking the questions. One for Sundar, one for Ruth. First, Sundar, you just talked about how once the crisis has passed, the world will not look the same. I'm curious if you can just elaborate a little bit more on how you think Alphabet comes out stronger on the other side of this downturn.

And then, Ruth, maybe taking the question on expenses a little bit further, did this give you any more opportunity to be even more disciplined or diligent on costs on the other side as well? Thank you.

Sundar Pichai

Thanks, Doug. It's a good question. And we are thinking deeply about it as well. In general, I would say the highest level opportunity is, across everywhere we see, businesses thinking deeper about the shift to digital. And that's true across marketing, cloud, in – every place we see that trend.

And so part of this is making sure our investments deliver value with respect to that shift.

So if you look at advertising, people who in the past may have debated things like how do I get virtual showrooming, now are really thinking about it. People who may have been hesitant to shift their budgets, do – are looking through moments like this and trying to get all that working better.

Cloud is an obvious area, every company has been thinking about digital transformation. But they are asking the questions deeper. For example, if you have data centers, there are fixed costs through something like this. And you learn going through moment like that and you're thinking about the opportunity harder.

So across everything we do, be it Search, be it YouTube, be it Play, be it Cloud, I think we are investing to capitalize on this long term opportunity. And I would say overall on Alphabet as well when you look at investments like a Waymo and Wing, you can imagine in the future these things working well can play a significant role. And even in the limited area [as Lingus and] [ph] we clearly saw its potential through a moment like this, so we're betting on those big trends.

Ruth Porat

And to your other question, if I understand it correctly, you're asking about the durability of some of the efficiency efforts. I think that the way I would answer that is, after a decade of growth there have to be opportunities for added efficiency. And we've been focused on that for some time. But painful times like this put a spotlight on an urgency around taking – making sure you're focused on the levers that you have.

And hopefully, those instill the right kinds of health metrics et cetera against which you're managing. So I would say that the intent most certainly is that these are durable investments to ensure that we're operating as effectively and efficiently as we can be. And I just need to reiterate. And Sundar and I have both said this. We remain committed to investing for the long term, so we're not compromising where we need to invest for long-term growth. We're trying to make sure that each dollar of investment is well managed.

Doug Anmuth

Thank you, both.

Operator

Thank you. And our next question comes from Heather Bellini from Goldman Sachs. Your line is now open.

Heather Bellini

Great. Thank you so much for taking the question. Ruth, I have 2 questions for you actually. First, I wanted to thank you for the color around the growth you're seeing as you were exiting the quarter in the ad business. And there's been some signs from different partners or different companies that ad spending whilst down considerably has actually improved a little bit, maybe some green-shoots from the declines that you might have been referencing at the end of March.

Any chance you can give us a sense of the type of growth you've been seeing for the first kind of 3, 4 weeks for the quarter, just to help level set us. And then, just in regards to the provision you mentioned in G&A related to credit deterioration, is there a chance you could tell us the amount of that provision? And do you expect to have to do this again in the second quarter? Thank you.

Ruth Porat

Thank you for the – so, in terms of ads revenue, as I said in opening comments, for our ads business a key signal to monitor is macroeconomic performance, which has tended to be correlated with ad spend. And I think it's premature for me to comment on the trend. In terms of what we saw in the first quarter, as I said, for Search and other revenues, they were up 9% year-on-year for the quarter.

But in March, revenues began to decline and then ended the month at a mid-teens percentage decline in year-on-your revenues. And then, with YouTube, we had strong revenue growth until late in the quarter when trajectories for direct response and brand diverged. And as I said, direct response does continue to have substantial growth throughout the quarter while brand began to experience a sizable headwind starting in mid-March.

So by the end of March total YouTube ads revenue growth had decelerated to year-on-year growth rate in the high-single-digits. And then, for the second quarter so far, you know what, I think it's premature to gauge, given uncertainty in the environment. And a few weeks, obviously, is not a quarter. So in such an unprecedented crisis, I would not want you to extrapolate from just a couple of weeks.

That being said, the decline in our Search and other ads revenue was abrupt in March and although we're seeing some early signs at this point that users are returning to more commercial behavior, it's not clear how durable or monetizeable that will be. So based on our estimates from the end of March through last week for Search, we haven't seen further deterioration in the percentage of year-on-year revenue declines.

For YouTube, direct response has remained strong. However, we've seen a continued decline in brand advertising and it's really too early to add more. I think that the main point though is a few weeks obviously is not a quarter and given it is such an unprecedented environment, I would not extrapolate from these comments for the full quarter. And then I'm sorry you had the second question on the…

Heather Bellini

On the G&A, sorry, no, that was very helpful so thank you on behalf of everybody. And then just the G&A that you mentioned the credit provisions that you said you took, I just was wondering if you could share the amount it might be in the queue later tonight, but wondering if you could share with us the amount on the call?

Ruth Porat

It will be in the queue later tonight.

Heather Bellini

Okay. Thank you.

Operator

Thank you. And our next question comes from Michael Nathanson from MoffettNathanson, your line is now open.

Michael Nathanson

Thanks. I have one for Sundar and one for Ruth. Sundar, people have asked you about your priorities you talked about, but I wonder if you could step back and think about what this crisis will do the other side and maybe a reorienting of your priorities so perhaps where you would shift spend in the long-term to maybe take advantage of where this is going? And then Ruth we appreciate the color on YouTube, just want to dig in some more, if you can give us any sense of YouTube geographies is there any difference by change by geography that is really helpful? So, thanks.

Sundar Pichai

In terms of overall priorities, I would say, we've always taken a long-term – on thinking through the arc of where things are going and our deep focus on

AI, it's an example of that and we've been convinced for a while that those trends will play out in the long-term and so if anything through moments like that, the strong foundation we have built allows us to continue to be able to invest in our long-term area so AI is a good example of it.

The shift over time on computing to ambient computing is something we're going to be deeply committed to and continue to invest there. Cloud and productivity software for businesses of all sizes is a deep area of investment and so the thesis still main so we continue to focus anywhere we think the actual work we are doing is based on deep technology, deep computing, a deep computational scale is the kind of investments we think still stand the test of time through things like, but beyond that we are actively looking at how user patterns are emerging so, for example, e-commerce is an area and you saw us respond through this with the changes we announced on our shopping property and going for comprehensiveness there and with new leaders in place we're going to be making sure we work on the user experience there.

And so we are looking at shifts be it videoconferencing with Google Meet and G Suite and adapting and investing in those areas as well so that's how we are approaching it.

Ruth Porat

And then in terms of the geographic breakdown for You Tube, we kind of bring that down, although I think as you know, well, we have a breakdown for the major regions around the world and to give you a little more color there, in mid February revenue growth across the business began to decelerate in APAC, although as I noted the decline in APAC was more muted just given the uneven impact of COVID and the nature of our business across the region and then the impact in EMEA was first evident in mid February with a steeper falloff in March. In the second week of March we then saw results in the U.S. as well as other Americas fall off shortly, but nothing more specific by product.

Michael Nathanson

Okay. Thank you, Ruth.

Operator

Thank you. And our next question comes from Brian Nowak from Morgan Stanley. Your line is now open.

Brian Nowak

Thanks for taking my questions. I have two. The first one, Ruth, just to go back to your comments around the early signs of improvements in behavior and search, I know it's early in doing over extrapolate, but just any more detail on the types of behavior you're seeing, which verticals or which categories or which geographies were you seeing sort of the first sign of green shoots on the Search side.

And then Sundar, just to go back to your comments about the shift toward digital opportunities or digital transformation, if you talk to us about as you sort of look back over the last couple years at what you've done on the SMB side and what are sort of one or two of the key hurdles where you see you really need to invest and build more comprehensive SMB products for post recovery?

Sundar Pichai

Maybe I can give color both on the SMB and a bit on that side too. On the SMB side, it's an area we have been investing for a while and obviously we have assets both across AdWords, Google Maps, Google My Business and obviously providing them with G Suite and the tools to get their business running. So, I do think we have a lot of touch points, but the focus has been simplifying it, making it more of a one cohesive easy experience making sure it works well from mobile that there is a truly lighter weight AdWords experience so that they can get on board it quicker and so reducing the work they need to and also over time bringing technologies like AI to just make it all much simpler and seamless for them.

And it's going to be a continued focus for us and especially scaling this up and making sure it works internationally well as well we have clear metrics and targets internally and we are aligning the teams better to get there and you would see us do more.

On the Ad side, a question – to your question about maybe I can give more qualitative cover to what was said earlier and we – the good thing about search ads and direct response on YouTube as well, but Search primarily is that, it's an extraordinarily effective system, it's a transparent system, you have a very clear sense of ROI, it's very measurable, highly cost-effective and so we have always seen and we saw this in 2008 as well, people respond in the short-term, but the recovery is also fast when it comes back and so it tends to work. It is very diversified not just geographically by different verticals and even through moments like that we do see businesses responding to demand shift and so we see through our system if people suddenly are looking for office furniture or even pajamas, the system response, right and so you see the dynamic nature of it.

I mentioned earlier people are really thinking about the shift to digital so Philip and our ads team are super engaged with our customers helping them think through the opportunities through moments like that. I gave a earlier example, if you are thinking about cars and you've been hesitant to do virtual car showrooming, now is the time you're beginning to have those conversations in a deeper way.

There are budgets, which are shifting in certain cases, some of our large customers, may be they've spent a lot of money on live sports that is clearly on hold so they're looking to shift some of those budgets into opportunities they see, but having said that there are large sectors of the economy, which are affected, things like travel and our large partners and customers are impacted and so we clearly see the impact of that and that's the color Ruth gave as well.

Brian Nowak

Great. Thanks, Sundar.

Operator

Thank you. And our next question comes from Brent Thill from Jefferies. Your line is now open.

Brent Thill

Good afternoon. I'm curious if you could just give us a little more color across SMB and enterprise, any common threads you saw between those two segments?

Sundar Pichai

We have had tremendous momentum on the G Suite and we can – all of Google works this way, products like Gmail, Google Docs that are built from the ground up to really help people be productive and collaborative in a distributed work environment and so we're clearly seeing traction there. Google Meet, have seen great traction and I gave – I mentioned some user momentum there, but we have more announcements coming up including later this week and so we are seeing tremendous traction and engagement on G Suite.

On Cloud, the shift to digital has been deep trend and if anything people are really engaged on it. I earlier talked about, you can imagine, if you're a customer and you have data centers, these are fixed cost when you go through moments like this and so people are really looking at opportunities there and so our teams are super engaged, but I do want to acknowledge, maybe small businesses across the world are deeply impacted.

As a company we have announced several efforts to support small and medium businesses and we are going to be deeply engaged with them, but I think it's a tough journey we are all on and we look forward to working with them to help them through this.

Operator

Thank you. And our next question comes from Dan Salmon from BMO Capital Markets. Your line is now open.

Dan Salmon

Good afternoon everyone. Thanks for taking the question. Sundar, I wanted to return to those long-term initiatives that you walked through earlier and one that was most close to your core business and the changes that you – were announced this week for shopping. Could you explain a little bit more about the reasons for making those changes and expanding the free listings or creating the free listings and what drove you to make that decision now? And then a related follow up for Ruth, same question essentially, but as we think about the financial impact of such a change, imagine this is one of those things, which may qualify as causing maybe some variability in the quarter-to-quarter rate, but something that benefits all parties over the long-term, I think is how we've often visited these sorts of changes, but any color you could add on sort of the near and long-term impact of the Google Shopping changes would be great too?

Sundar Pichai

So, going through a moment like this, it's very clear, part of what makes Google work well is, people come across a diverse range of needs and that's true for shopping. They spend time discovering and comprehensiveness really matters that's how we can have a great user experience and so as we've been thinking about this space, we realize and this is how our organic search works, for us to truly give that comprehensiveness and the quality of experience.

We need the widest catalog possible and then we are good at ranking it and providing and matching users to what they are looking for. And so it is – it made a lot of sense for us and just looking through the range of experiences people who are seeking through the COVID pandemic validated it even more and obviously we've been executing really hard there with leadership in place and so we saw the opportunity to go back to our first principles and improve the comprehensiveness there.

One of the tricky things about when you do that is making sure you don't have spam and you're managing and giving people good quality experiences and that's where our deeper partnership, be it with PayPal and other providers so that we get the quality signals and really improve the experience as we improve comprehensiveness so both of them are going hand in hand and as we have demonstrated with Search, when we improve the organic experience the advertising experience also gives an opportunity and the system works well and so I'm really excited about this change. It is still early and but it's been very positively received and you're going to see us enhance the experience in this area deeply.

While we talk about shopping another area where we are investing and building the right foundation is at Google Pay and we have great leadership there as well. We've been executing well over there for the past year and the growth on Google Pay has been strong and so being able to bring all of that together along with strong players like PayPal et cetera will help us give great experience for our users here.

Ruth Porat

And in terms of your question about the financial implications of the effort, there's really not much to add here today I would just say, re – echo Sundar's comment, we're excited to have the – leading the effort, and as Sundar said at the outset, one of the priorities is creating sustainable financial value and we have a leader who has a demonstrated track record of doing that so we're excited about what he is building here with the team.

Dan Salmon

Okay. Thank you both.

Operator

Thank you. And our next question comes from Justin Post from Bank of America. Your line is now open.

Justin Post

Great. Appreciated all the advertising updates in March, just wondering your cloud growth is obviously quite stable in the low 50's, any impact in March on workloads or a slowdown in the new customer pipeline? And then maybe Sundar, if you could talk about what could be the benefit for cloud as we get to the other side of this more work from home or just other things and secular changes in cloud that might come about from this? Thank you.

Sundar Pichai

Overall on cloud the interest in the momentum remains strong, we're obviously making a lot of progress both across GCP and G Suite and we find our offerings are getting deeper and we're really helping customers from a deeper standpoint so we see overall momentum. There are cases where even though the deal trajectory is the same and we have the wins. Things are taking a bit longer, naturally as you would expect.

Our customers are impacted for moments like this too so I would say, time to closing some larger deals are impacted. But the companies, if anything, all the way at a CEO level, are thinking about the shift to digital in a deeper way. And I think that's a longer term trend we are excited about.

Obviously, consumption gets impacted depending on the sectors which companies are in. And so that has some correlation with the general underlying performance of that sector. And so, that's something we'll have to wait and see how it develops. But the teams are doing well and it's an area where we are committed to the course we are on and investing deeply for the long run.

Ruth Porat

Then you asked about kind of Q2. Nothing to highlight there, I'd just reiterate what Sundar has said. We're really pleased with the Q1 performance for both GCP and G Suite. And the dynamics affecting cloud are obviously very different than those from ads. And just to build on Sundar's comments with little more on G Suite and some of our opening comments, in this work-from-home environment what we're seeing is significant interest from governments and companies looking for work-from-home solutions.

So just to add one more example, Cambridge Health Alliance is a U.S. health system with a 140,000 patients. And they relied on G Suite to support their staff and caregivers during COVID-19, helping them connect across hospitals, health centers from home. And it's just yet another example of how we're able to be present, helpful, useful in this time.

Justin Post

Thank you.

Operator

Thank you. And our next question comes from Kevin Rippey from Evercore ISI. Your line is now open.

Kevin Rippey

Hi, thanks for taking the question guys. One for Sundar and then one for Ruth. Sundar, the question for you really relates to the resiliency you're seeing within direct response piece of YouTube, like are there specific factors or is it a question of mix of advertisers there, that's sustaining the growth?

And then the question for Ruth, you highlighted that this has given you an opportunity to refocus on cost discipline. It looks like that the capital returns by way of buyback remain quite strong in the quarter. Has this affected your thoughts on buybacks and capital returns going forward? Thanks.

Sundar Pichai

Maybe stepping back, I would say, we are overall seeing strong momentum on YouTube. People are turning to YouTube. Our watch-time has increased across the board. People are also looking for our authoritative news content. Viewership on YouTube has increased significantly compared to last year or two.

So in many ways through the pandemic, people are using YouTube. And the trends are global across North America, EMEA and Asia Pacific as well. On direct response, I do think, I think people are – it's a journey, and people who have been investing are seeing that it is cost effective, and so, over time more people are looking at it.

Our sales teams are doing an excellent job of helping our customers understand the opportunities there, and so being able to bring all of that to bear. In the case of App Campaigns, we have done it with Universal App Campaigns. So we've just made it easier as a customer, not to think about whether you're trying to do this across Search or YouTube. And bring a simple holistic solution, so all of that is impacting.

I mentioned gaming earlier. When you think about things like unboxing and product reviews, those are natural home for transactions as well. I earlier mentioned about all the work we are doing now on commerce. All of that, I am looking forward to those integrations coming into YouTube and working better as well.

And so, those are some of the longer-term opportunities. We are working hard to get the experience right and building the right foundation for the future.

Ruth Porat

And then on your second question on capital returns, we believe a share repurchase program for us appropriately sized is responsible on the current environment based on our capital allocation framework and our cash balance. So in the beginning of the year, I indicated that we expected to repurchase shares at a pace at least consistent with the fourth quarter on the remaining authorization and that remains our view for the second quarter.

Operator

Thank you and our final question comes from the line of Mark Mahaney from RBC. Your line is now open.

Mark Mahaney

Okay, thanks. In terms of the – maybe less worse or somewhat positive trends at the end, you mentioned this recovery or modest move up in consumer commercial search queries, have you also seen a small improvement in advertiser interest in running campaigns? I think you said both of those factors kind of deteriorated in March.

One of them came back. Did the other come back too? Did you also see advertisers starting to come back? And then, secondly, the YouTube result in the March quarter was phenomenally strong given what happened in the month of March to YouTube. Is that a comp issue? Was the comp much easier? It sounds as like January, February could have been up strong 40% year-over-year. So is there any color? Is that just comps, easy comps, or was there something that fundamentally changed that cause that kind of material acceleration? Thank you.

Ruth Porat

So as I tried to be really clear in my response to others' question, I would not extrapolate from my comments for the full quarter. It's early, just giving you an early read and there's really not much more to add than what I indicated, so nothing more to add there. And then, in terms of…

Sundar Pichai

Yeah, maybe just to reiterate what was said earlier and I said that Search tends to – people respond to changes in Search faster, brand trail. So brand is maybe slower to change both on the downside and the upside. And Search is much faster to adapt as well. And so I think that's worth keeping in mind. But overall, look, we see a vibrant system. Advertisers are definitely very engaged and looking at it. And we are seeing active conversations between our teams and our large advertisers, where they're trying to understand the demand shifts and how they can respond.

And so, overall, I see the – both from users, users are engaging with Google, YouTube and our core products and services. And while, obviously, there’s an impact on the economy and we’re not immune to that, the engagement from advertisers across our products and with our teams has been very robust.