

Putting Google's Q3 ad revenue slump into context

Article

“Google is clearly trying to modernize what has been this golden goose, which is their search business, while also trying to modernize the format that they’re able to deliver to users on YouTube with Shorts,” said our analyst Max Willens, following Alphabet’s third-quarter earnings. “We might be at the beginning of an environment where it's tough to build momentum around either of them.”

How we got here: Last month, Alphabet revealed only modest third-quarter gains after a booming 2021.

- Google's advertising business, in particular, took a big hit, growing only 2.5% year over year in comparison to last year's 43% growth in Q3.

But a slowdown isn't surprising: Compared to last year's growth, a 2.5% increase in ad revenues seems low.

- But expecting the same kind of growth in a year of economic slowdown is unrealistic, said Willens during a recent "Behind the Numbers: The Daily" podcast.

Google needs to stand out on its own: This summer, Google revealed that nearly 40% of young Americans (those between the ages of 18 and 24) use TikTok and Instagram as their search engines of choice.

- In response, Google is adding features to make search a more visual experience.
- But trying to copy others may not be the best way to increase consumer engagement in the long term.
- "Google is going to have to think about what its point of differentiation will be," said Willens. "I don't think there's worry about Gen Z and millennials cutting Google out of their lives, it's more thinking about what role it can play going forward."

Behind YouTube's slowdown: YouTube's ad revenues dropped 2% in Q3, caused by three factors, according to Willens.

- First, YouTube is pushing its video Shorts format, which is still early in its monetization journey.
- Second, though Google's core search business is relatively immune to Apple's App Tracking Transparency changes, YouTube is not, which could be biting into its revenues.
- Third, it all goes back to comps, said Willens: "YouTube had a monster 2021, so it's harder to stack up against that."

The L word: Google has said it's going to tighten its belt, but so far, it hasn't mentioned any layoffs.

- The company will have to balance keeping staff while redirecting its energies (in other words: money) to drive better outcomes.

- After experiencing success for so long, “this is something they’re struggling to wrap their minds around,” said Willens.

[Listen to the full podcast.](#)

This was originally featured in the eMarketer Daily newsletter. For more marketing insights, statistics, and trends, subscribe [here](#).