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Big Tech's earnings malaise reflects wider economic challenges

Article

The news: Big Tech kept the economy afloat during the pandemic, when the sector boosted profits, but recent earnings reports reveal that tech behemoths are not immune to the flagging economy, per The New York Times.

Signs of an inevitable slowdown: Tech's biggest companies' Q3 earnings reports are telegraphing a slowing economy due to inflation, rising interest rates, and reduced consumer spending.

“We’re in for a dark winter,” said **Brent Thill**, a technology analyst with the investment firm Jefferies. “From small ... to large—no one is immune.”

Alphabet’s growth has decelerated for five consecutive quarters, with revenues coming in at **$57.5 billion**, short of the anticipated **$58.3 billion**.

- Alphabet executives said they’re seeing **less ad spending on insurance, loans, mortgages, and crypto**.

Meta, which rebranded a year ago to pursue its metaverse quest, reported an operating **loss of $3.7 billion** for its **Reality Labs VR** division.

- It saw **revenue fall 49%** from the prior year to $285 million, per Insider.
- **Meta shares are down more than 61%** this year in the wake of rising competition from TikTok and deflating ad sales.

Amazon, the second largest employer in the US with 1.52 million employees in Q2 per CNBC, is cutting back on expansion, mothballing buildings, and pulling out of leases in preparation of a slowdown.

Microsoft, which is usually rock solid, had its biggest drop since 2020 due to slowing cloud growth. **Shares slid as much as 8.2%** and stock value has fallen about 30% so far this year, per Yahoo.

The pandemic rush has stalled: Big Tech companies thrived for three years during the pandemic, with remote work and education needs fueling the profit from hardware, services, and subscriptions. Strong ad sales similarly buoyed social media and ecommerce titans.

Innovation in the sector has also dipped in recent years.

- Despite years of investing on moonshot projects, companies like **Google** and Meta are mostly dependent on ad sales.
- The **iPhone** remains **Apple**’s most profitable product, 15 years after it created the smartphone and mobile app market.

The social media landscape has similarly suffered losses. **TikTok**’s surge in popularity and slowing engagement on platforms like **Facebook, YouTube**, **Instagram**, and **Snap** have led to restructuring and job cuts.

Google and Microsoft plan to slow hiring and monitor rising energy and supply chain costs. Apple has similarly noted it will be deliberate about how it expands its workforce as the economy struggles. It has also increased the prices of various subscription services.

Key takeaway: The tech sector's biggest players will continue to serve as a harbinger of economic recovery. Expect companies to continue to slow down spending heading into 2023.

This means trimming headcount, discontinuing poorly performing products and services, and cutting back production to adjust to weakened demand.

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