



ECONOMICS & MARKETS

US reporting season and the tech sector

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AMP Capital chief economist Shane Oliver says revenue disappointments and slowing user growth at technology giants Facebook and Twitter is a warning that the US tech sector could at some stage underperform - or even suffer a



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what those disappointments tell us is there is a limit to the take up of social media," he says. "At some point it will start to slow down."

Oliver says the US reporting season for the June quarter was "pretty good". Some 83% of companies had exceeded expectations regarding profits and more than 70% exceeded revenue expectations.

"Overall profit growth is running around 27% on a year ago," Oliver says. "Even if you exclude the impact of the US corporate tax cuts, profit growth is running around 15%."

But high-profile disappointments have focused attention on the technology sector.

Oliver says the sector has performed well overall, but social media giants Facebook and Twitter disappointed the market. Facebook's shares crashed almost 20%, wiping out \$US120 billion of value - the biggest one-day drop in US stock market history - after it missed revenue expectations and reported slowing user growth.

Twitter shares also slumped 15% after its user growth came in lower than market expectations.



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“To some degree that’s inevitable; at some point you reach saturation regarding some of these social media sites. I guess the debate is always when that’s going to occur and what impact that has on revenue growth.”

Oliver says the disappointments highlight that there is a risk of correction after the tech sector’s strong gains. He says a pullback is unlikely to be as severe as the tech crash, which began in 2000 and ended the tech bubble at the time.

“It will be nothing like what we saw at the height of the tech boom back in 2000 when the Nasdaq got to a PE of around 100 times; today we’re less than 30 times, so not nearly as overvalued as back then.”

“But obviously there is a bit of risk that at some point out there the tech sector will lose its leadership of the US share market and go through a period of underperformance, if not a bit of a decent correction.”

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