

# Tech Giants See AI Bets Starting to Pay Off

Microsoft, Google and Amazon report strong growth in cloud revenue, but warn of increased spending

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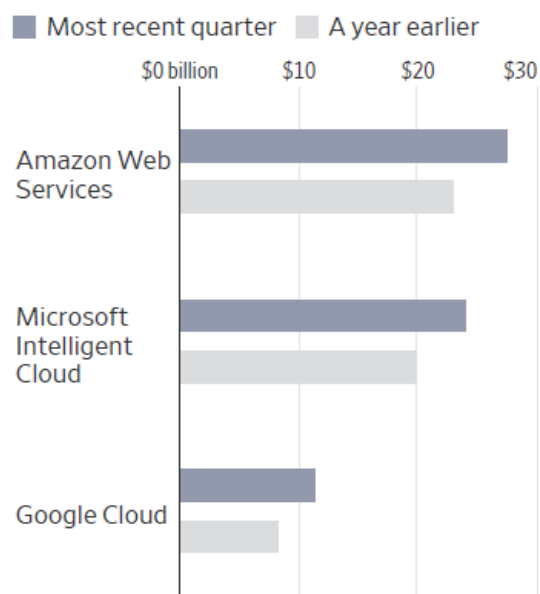
An Amazon Web Services data center in Ashburn, Va. The cloud-computing unit is Amazon's main profit driver. PHOTO: NATHAN HOWARD/BLOOMBERG NEWS

Some of the world's biggest tech companies showed this week how the tens of billions of dollars they have bet on the artificial intelligence boom are starting to pay off. They also warned bigger investments are coming.

Revenue from cloud businesses at Amazon [AMZN 1.85% ▲](#) .com, Microsoft [MSFT 1.35% ▲](#) and Google reached a total of \$62.9 billion last quarter. That figure is up 22.2% from the same period last year and marked at least the fourth straight quarter in which their combined growth rate has increased.

Accelerating growth in cloud computing is the surest sign yet that spending by AI customers is beginning to justify the huge investments tech giants are making in infrastructure to power the technology.

## Revenue



Source: the companies

“Demand continues to be higher than our available capacity,” Microsoft Chief Financial Officer Amy Hood said on a call with analysts.

Investors have long worried that Silicon Valley may be overspending on cloud capacity in expectation that AI will bring a boom on par with the early days of the internet. Record capital expenditures have repeatedly shaken the market, including Thursday when the tech-heavy Nasdaq Composite dropped 2.8%.

Amazon, Microsoft and Google parent Alphabet **GOOGL 1.76% ▲**

disclosed this week that they spent a total of \$50.6 billion on property and equipment last quarter, compared with \$30.5 billion in the same period last year. Much of that money went to data centers used to power AI.

All three companies warned Wall Street that their spending will go higher in the coming months, as did Meta Platforms, which invests in the infrastructure for its own AI applications on Instagram, WhatsApp and Facebook.

Meta plowed \$8.3 billion into new property and equipment last quarter, up from \$6.5 billion in the same quarter a year ago, as it seeks to build the world’s most-used AI assistant.

“Our AI investments continue to require serious infrastructure, and I expect to continue investing significantly there,” Chief Executive Officer Mark Zuckerberg said.

Skeptics say it remains unclear whether the current excitement over AI will sustain long-term growth that pays for all of the spending.

Nonetheless, investors saw some signs for hope this week in the robust growth at big cloud businesses, which rent computing storage and processing power in data centers to business customers.



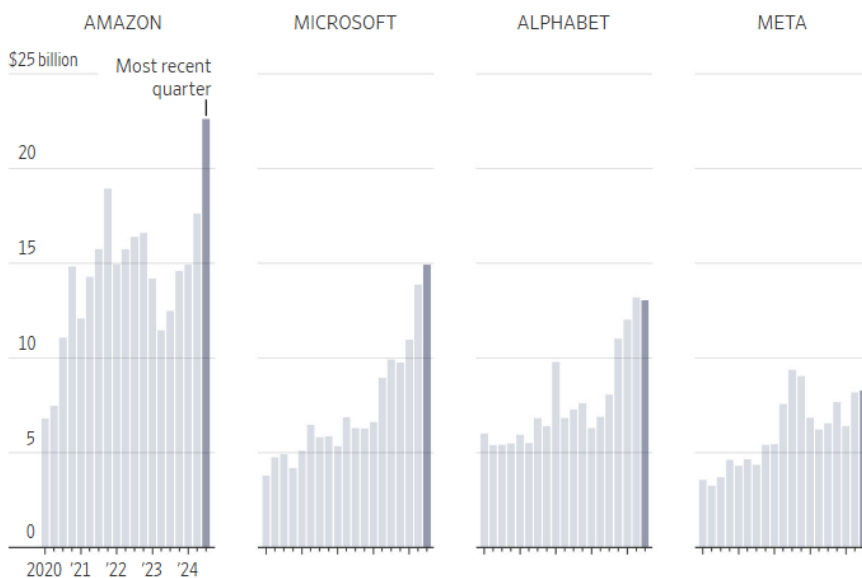
Amazon, Microsoft and Alphabet spent a total of \$50.6 billion on property and equipment last quarter, much of it on data centers. PHOTO: RODRIGO ARANGUA/AGENCE FRANCE-PRESSE/GETTY IMAGES

Their momentum was fading in early 2022, as a decadelong boom in the industry fueled by widespread migration to the cloud was decelerating.

But over the past year, things have turned around thanks in part to spending by AI developers, which require more processing power than traditional software companies.

“The data center cloud business is strong,” said Dan Morgan, a portfolio manager at Synovus Trust, which has positions in all three cloud giants. “Of all the groups, this is the one where we can show the most tangible evidence of the impact of AI, other than selling chips.”

Capital spending, quarterly



Note: Reflects purchases of property and equipment. Data are for calendar quarters. Source: the companies



Google, which has long been in third place among cloud providers, reported its revenue from that business revenue grew 35% in the third quarter, well ahead of Wall Street's expectations. Shares in Alphabet rose 3% Wednesday, the day after it released earnings.

Amazon's stock rose nearly 6% in after-hours trading Thursday after it also reported accelerating growth in its cloud business.

Amazon CEO Andy Jassy said his company's cloud AI business was on pace to draw billions of dollars in annual revenue and was growing at a triple-digit rate, faster than the overall Amazon Web Services business.

Microsoft stock dropped 6% Thursday, a day after the company lowered growth projections for its cloud business, which it attributed to its inability to build data centers fast enough.

Brad Reback, an analyst with Stifel, said Microsoft's overall prospects in the space still look strong.



A Microsoft data center in Wisconsin. The company said sales of AI products and cloud services in the current quarter will surpass \$10 billion on an annualized basis. PHOTO: MARK HERTZBERG/ZUMA PRESS

“It’s a short-term disappointment, but I don’t think the quarter disrupts from our longer-term perspective that Microsoft is a leader in generative AI,” Reback said.

Microsoft said that in the current quarter, sales of AI products and cloud services will surpass \$10 billion on an annualized basis for the first time.

Microsoft, Amazon and Google are moving fast to develop their own AI products for consumers and businesses, such as Google's Gemini and Microsoft's Copilot. But their cloud businesses represent their primary efforts to profit from the technology's adoption in the near term.

Privately held AI companies such as OpenAI and Anthropic are in a race to build larger and more sophisticated AI systems capable of performing complex tasks. Those efforts require assembling tens of thousands of interconnected chips, a difficult task for startups to accomplish themselves.

Microsoft is the biggest investor in OpenAI, while Google and Amazon have put billions into Anthropic. The tech giants rent cloud services to their respective startups, earning back some of the money they invested, and sell their AI applications to customers.

Microsoft said usage of a service selling access to OpenAI's technology through the cloud had doubled over the past six months, citing customers such as the AI startups Grammarly and Harvey.

Oracle, the fourth-largest U.S. cloud provider, is also spending heavily to capitalize on growing demand for AI infrastructure that the big three can't meet. Oracle's fiscal quarter ends in November, and it is expected to report earnings in December.

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