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Google Isn't Threatened by Slowdown, Economist Says (Update2)
By Ari Levy

Aug. 24 (Bloomberg) -- Google Inc.'s chief economist said the company's \$10 billion annual online advertising business is flourishing even as turmoil in the credit markets curbs corporate and consumer spending.

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While advertisers may cut television, print and radio budgets during economic slowdowns, Google is less vulnerable because companies will spend more on ads that can be targeted at specific consumers, said Hal Varian, who was hired two months ago to lead Google's economics group.

"It's measurable, it's quantifiable and that's the very last piece of advertising a company wants to cut," Varian said in an interview today. "We're looking pretty good from the viewpoint of macroeconomic sensitivity."

That contrasts with the housing, credit and private-equity markets, which have been pummeled by the subprime mortgage crisis. The fallout has spilled over into the consumer market, prompting retailers such as Wal-Mart Stores Inc. and Home Depot Inc. to cut their profit forecasts for the year. The Federal Reserve responded last week by lowering the interest rate it charges banks.

Google, owner of the most-popular search engine, gets 99 percent of its revenue from sponsored links on its own pages and ads on partner sites. Revenue at the Mountain View, California- based company rose 73 percent to \$10.6 billion in 2006.

Housing Gains



Varian said ad revenue from the housing industry has gained because lenders and brokers are facing stiffer competition.

"I can certainly say they haven't cut back on the Internet side," Varian said.

Google shares rose \$2.18 to \$515 at 4 p.m. New York time in Nasdaq Stock Market trading. They have climbed 12 percent this year, compared with a 4.3 percent gain for the Standard & Poor's 500 Index.

Varian, 60, started working as a consultant for Google in 2002. Before joining full time in June, he spent 12 years as a business and economics professor at the University of California at Berkeley, where he received his doctorate in 1973.

He runs a team of about a half dozen economists, statisticians and engineers, and wants to hire one or two more this quarter. He has known Chief Executive Officer Eric Schmidt, also a Berkeley alumnus, for about a decade. The two meet every couple of weeks, Varian said.

The pair wrote an article for Newsweek in 2005 titled, "Google: Ten Golden Rules." The piece gives advice on how to get the most out of company employees, with bullet points such as "encourage creativity" and Google's long-time slogan, "don't be evil."

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