Apple Sags As Consumers Buy Cheaper iPhones

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NEW YORK (AP) — More consumers are buying the least expensive iPhones and iPads, a new phenomenon that is causing Apple's breakneck growth rate to slow.

On Tuesday, Apple Inc. revealed that both revenue and net income posted increases of just over 20 percent — cause for celebration at most companies, but meager by Apple standards.

Apple's growth was the slowest in more than two years, and failed to meet analyst expectations.

"The sheen is off the apple: It was a miss, no question about it," said David Rolfe, chief investment officer at Wedgewood Partners Inc.

Apple routinely blows past analyst expectations. It has only come in under their earnings expectations twice in ten years.

"We became too confident, in our expectations, that Apple had literally a perfect pulse on end demand throughout the globe... and quite simply, that wasn't the case this quarter," Rolfe said.

It wasn't so much the volume of sales that disappointed: Apple sold 17 million iPads in April to June period, beating expectations, and 26 million iPhones, at the low end of expectations.

But Apple's average selling prices for the gadgets declined to levels last seen in 2010 for the iPhone and the lowest levels ever in the case of the iPad.

Part of the reason was that consumers bought less expensive versions of the devices, said Apple's chief financial officer, Peter Oppenheimer. Apple introduced a new iPad in March, but kept the older model in stores while cutting its price.

The strengthening dollar also meant that overseas sales at constant prices translated into fewer dollars for Apple.

Sales in China, which have been a growth engine for the company, also declined compared to the previous quarter. CEO Tim Cook said that was because the iPhone 4S went on sale in China during the quarter that ended in March, and the company stocked inventories in the country.

Cook is known as an efficient manager of production and supply. He took over after founder and CEO Steve Jobs, who died in October.

Cook said he didn't see any effect of the economic slowdown in China. The troubles

in Europe were evident, however. Sales to the continent grew just 16 percent.

Cook also blamed the tepid iPhone sales — up 28 percent from a year ago, but down from the previous quarter — on anticipation building for the next iPhone model. Apple hasn't said when it's arriving, but most company watchers now expect it in October.

Rolfe had expected stronger iPhone sales, and said he's surprised that consumers are holding off on buying iPhones as much as six months before the arrival of a new model. Previously, iPhone sales started tapering off about three months before the arrival of a new model.

Net income in Apple's fiscal third quarter was $8.8 billion, or $9.32 per share. That was up 21 percent from $7.3 billion, or $7.79 per share, a year ago.

Analysts polled by FactSet were expecting earnings of $10.37 per share.

Revenue at the Cupertino, California, company was $35 billion, up 23 percent. Analysts were expecting $37.5 billion.

Investors sold off Apple shares, but the reaction was muted compared to the earnings miss. Apple shares fell $31.92, or 5.3 percent, to $569 in after-hours trading, after the release of the results.

With its market value of $539 billion, Apple is by far the world's largest company.

Apple forecast earnings of $7.65 per share for the current quarter, well below the average analyst forecast at $10.26. Normally, Apple's forecasts are ignored, because the company routinely exceeds them. But for the just-ended quarter, Apple's cautious forecasts were more accurate than those of analysts.

Apple's forecast points to year-over-year profit growth of just 9 percent.

For revenue, Apple forecast $34 billion, while analysts have been expecting $38.1 billion.

Apple last missed expectations when it reported results for the quarter that ended in September last year. That was due to the iPhone 4S's launch being pushed from that quarter to the following one, and it made up the shortfall with very strong sales in the holiday quarter.

Apple's chief financial officer, Peter Oppenheimer, said the new version of its operating system for Macs, Mountain Lion, will go on sale Wednesday.

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