

AFP® Corporate Cash Indicators

AFP Corporate Cash Indicators® July 2021

During the second quarter of 2021, U.S. businesses continued to build their cash and short-term investments at a significantly higher rate than the previous quarter. The quarter-over-quarter index reading increased 37 points to +43, signaling that organizations were building cash reserves at an extremely rapid pace during the second quarter. This reading is the highest on record since AFP began collecting this data in 2011. The primary reason organizations increased cash holdings was due to improved business performance. There were some respondents who indicated they were building cash reserves due to the seasonality of their business. The few organizations that decreased their cash and short-term investment holdings during the second quarter did so primarily due to poor business performance. The year-over-year indicator increased by 24 points from +21 to +45, indicating a faster pace of cash accumulation than a year ago. A year ago, organizations were struggling with their cash flow and were compelled to disburse their cash holdings to remain viable. They are now in a stronger financial position and holding onto their cash and short-term holdings to safeguard against future uncertainty.

At the beginning of the second quarter, financial professionals signaled they were looking to build their cash reserves slightly during the second quarter, as reported in the April 2021 CCI report, with a forward-looking indicator of +1. Their actions indicate they did as planned, though at a significantly higher rate than they anticipated. Entering the third quarter, the forward-looking indicator, measuring expectations for changes in cash holdings during the summer, increased 7 points from their predictions last quarter to a reading of +8, suggesting they plan to accumulate their cash holdings once again. A vast majority of companies, attribute the expected increase in cash holdings in the third quarter to improved business performance. Those financial professionals whose organizations were planning to deploy their cash and short-term investments during the current quarter provided the following reasons to explain their actions: worsening business performance, debt repayment, investing to grow their businesses and cyclical cash disbursement.

The CCI measure for short-term investment aggressiveness indicated a slightly aggressive investment posture during the second quarter of 2021, increasing 8 points from last quarter's reading of -5 to 3. These results are based on 101 responses from senior treasury and finance professionals this quarter. The CCI is underwritten by Wells Fargo Asset Management.

As the U.S. gradually returns to some semblance of normalcy with the assistance of rising vaccination rates, organizations too are turning the tide after a brutal year. Though the post-pandemic recovery is gradual, it appears to be moving in the right direction. Hiring seems to be on the uptick, with businesses adding 850,000 employees to their workforce in June. Though financial leaders are witnessing improved business performance, they continue to be cautious with their cash holdings as there is tremendous uncertainty as to what might lie ahead. The pandemic is still very much an issue. Variants of COVID-19 continue to prevail along with a persistent anti-vaccination sentiment, resulting in cases surging in some pockets of the country. Also being closely watched is the outcome of the proposed infrastructure bill. With some bipartisan support the current administration is hopeful it will turn into legislation, but currently this deal is still tentative. Though businesses in the U.S. are being propelled by tailwinds, the situation globally is very different. Inadequate vaccine supply is preventing many countries from resuming normalcy, therefore hindering travel, trade and supply-chain distribution.

Over the past quarter, did your organization's cash and short-term investment holdings increase, decrease or remain the same?

| July 2020 | October 2020 | January 2021 | April 2021 | July 2021 |
|-----------|--------------|--------------|------------|-----------|
| +20 | +19 | +39 | +6 | +43 |

Index: "Increase" percentage minus "decrease" percentage. The higher the index reading, the greater net percentage of organizations that have increased cash and short-term investment holdings over the past quarter.

Over the past year, did your organization's cash and short-term investment holdings increase, decrease or remain the same?

| July 2020 | October 2020 | January 2021 | April 2021 | July 2021 |
|-----------|--------------|--------------|------------|-----------|
| +29 | +24 | +29 | +21 | +45 |

Index: "Increase" percentage minus "decrease" percentage. The higher the index reading, the greater net percentage of organizations that have increased cash and short-term investment holdings over the past year.

During the current quarter, do you expect your organization will increase, decrease or maintain its current cash and short-term investment holdings?

| July 2020 | October 2020 | January 2021 | April 2021 | July 2021 |
|-----------|--------------|--------------|------------|-----------|
| -8 | -4 | -16 | +1 | +8 |

Index: "Increase" percentage minus "decrease" percentage. The higher the index reading, the greater net percentage of organizations expected to increase cash and short-term investment holdings during the current quarter.

Over the past quarter, did your organization's investment selection for its cash and short-term investments become more aggressive, more conservative, or remained unchanged?

| July 2020 | October 2020 | January 2021 | April 2021 | July 2021 |
|-----------|--------------|--------------|------------|-----------|
| -17 | -13 | -5 | -5 | +3 |

Index: "More aggressive" percentage minus "more conservative" percentage. The higher the index reading, the greater net percentage of organizations that have become more aggressive with their investment selection for their cash and short-term investments over the past quarter.

Demographics

Revenue

| | |
|------------------------|-----|
| Less than \$50 million | 25% |
| \$50-99.9 million | 10% |
| \$100-249.9 million | 15% |
| \$250-499.9 million | 10% |
| \$500-999.9 million | 8% |
| \$1-4.9 billion | 22% |
| \$5-9.9 billion | 5% |
| \$10-20 billion | 3% |
| Over \$20 billion | 2% |

Industry Categories

| | |
|---|-----|
| Banking/Financial Services | 12% |
| Administrative Support/Business Services Consulting | 3% |
| Construction | 2% |
| E-Commerce | 1% |
| Education | 2% |
| Energy | 1% |
| Government | 4% |
| Health Care and Social Assistance | 8% |
| Hospitality/Travel Food Services | 4% |
| Insurance | 3% |
| Manufacturing | 21% |
| Non-profit (including education) | 8% |
| Petroleum | 2% |
| Professional/Scientific/Technical Services | 3% |
| Real Estate/Rental/Leasing | 3% |
| Retail Trade | 5% |
| Wholesale Distribution | 9% |
| Software/Technology | 6% |
| Telecommunications/Media | 2% |
| Transportation and Warehousing | 2% |

About the Index Values

Note: Rounding may lead to minor differences in the final index value

- 56 percent of organizations held larger cash and short-term investment balances at the end of Q2 2021 than they did at the end of Q1 2021, while 13 percent reduced cash holdings in the past three months. The +43 difference was up 37 points from the previous quarter's reading and up 23 points from a year ago.
- 59 percent of organizations held greater cash and short-term investment balances at the end of Q2 2021 than they had one year earlier, while 14 percent held smaller cash balances relative to a year ago. The difference of +45 is 21 points higher than the previous quarter's reading and 16 points higher than the July 2020 reading.
- 34 percent of organizations anticipate expanding cash and short-term investment balances over the next three months, while 26 percent plan to reduce these balances. The net index reading of +8 increased 7 points from last quarter's reading and increased 16 points from a year ago.
- 6 percent of organizations were more conservative with their short-term investments in Q2 2021, and 9 percent were more aggressive. The +3 reading is equal to last quarter's reading and 20 points higher than a year ago.

About the AFP Corporate Cash Indicators®

The AFP Corporate Cash Indicators® (www.AFPonline.org/CCI), are produced by the Research Department of the Association for Financial Professionals as forward-looking measures of corporate cash and short-term investment holdings and of expected business conditions. On the opening days of each quarter, AFP asks select members about the size and make up of their short-term investment holdings. AFP has scheduled the release of the next edition of the AFP Corporate Cash Indicators® for October 25, 2021. For information about publishing the AFP CCI® on your site, contact pr@afponline.org.

Survey Methodology

The AFP Corporate Cash Indicators® are derived from a quarterly survey sent to a select group of financial professionals consisting of four questions about how companies manage their cash and short-term investment portfolios. The survey goes to people whose day-to-day job is manage their companies' cash and short-term investment portfolios and are fully aware of their organizations' cash strategies. Companies' decisions to grow/shrink the size of their cash and short-term investment portfolios reflect their business outlook and direction, making these decisions leading indicators of economic activity.

The first three questions are:

- *Over the past quarter, did your organization's cash and short-term investment holdings increase, decrease or remain the same?*
- *Over the past year, did your organization's short-term holdings increase, decrease or remain the same?*
- *During the current quarter, do you expect your organization will increase, decrease or maintain its current cash and short-term investment holdings?*

To arrive at the index values for each of the first three questions, subtract the percentage of respondents who report "decrease" from those that report "increase." (For example, if 40 percent of respondents indicate that their organizations' holdings have increased over the past quarter and 30 percent indicate a decrease, the index reading is +10.).

The final question asks about strategy:

- *Over the past quarter, did your organization's investment selection for its cash and short-term investments become more aggressive, more conservative, or remained unchanged?*

The index value from this question is the difference of the percentage of respondents who indicated "more aggressive" and those that indicated "more conservative."