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AFP CORPORATE CASH INDICATORS®

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AFP Corporate Cash Indicators® July 2018

U.S. businesses continued to accumulate cash and short-term investment holdings, during the second quarter of 2018, but did so at a slower pace than the previous quarter. The quarter-over-quarter index reading decreased 13 points to +5, while the year-over-year indicator decreased just one point to +16, signaling organizations were unwilling to invest or spend their growing cash reserves in the past year.

Entering the second quarter, business leaders were anticipating they would deploy cash, albeit at a slow pace. However, their actions did not align with their plans. Findings suggest they continued to grow their cash reserves, though at a slower rate than they have done in the past. Treasury and finance professionals are anticipating they will continue to hold onto their cash reserves through the summer, but not at the alarming rates we have previously observed. The forward-looking indicator, measuring expectations for changes in cash holdings in the third quarter, increased 4 points from their predictions last quarter to a reading of +3.

The CCI measure for short-term investment aggressiveness indicated a slightly less aggressive investment posture as compared to last quarter, decreasing from a reading of +11 to +9 during the second quarter of 2018. These results are based on 144 responses from senior treasury and finance professionals this quarter.

Strong employment numbers and a competitive job market in the domestic economy may have instilled some confidence among business leaders during the spring of 2018, but is still not doing enough to encourage them to reduce their cash holdings. The threats of tariffs, fear of a trade war and recent tension with the U.S.'s closest allies are rattling businesses. Also of concern to financial leaders are the various geopolitical risks in the headlines recently: President Trump's meeting with the North Korean dictator, Brexit, and a tumultuous NATO Summit to mention a few. With midterm elections this fall, the chances of leaders in Washington working cohesively are slim and treasury and finance professionals might have to wait awhile before they feel comfortable spending their cash reserves.

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

July 2017	October 2017	January 2018	April 2018	July 2018
+16	+25	+15	+18	+5

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 2017	October 2017	January 2018	April 2018	July 2018
+18	+20	+23	+17	+16

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 2017	October 2017	January 2018	April 2018	July 2018
+8	+13	-1	-1	+3

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 2017	October 2017	January 2018	April 2018	July 2018
+4	+5	+6	+11	+9

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	12%
\$50-99.9 million	5%
\$100-249.9 million	10%
\$250-499.9 million	9%
\$500-999.9 million	10%
\$1-4.9 billion	34%
\$5-9.9 billion	9%
\$10-20 billion	5%
Over \$20 billion	6%

Industry Categories

Agricultural, Forestry, Fishing & Hunting	1%
Banking/Financial Services	9%
Administrative Support/Business Services Consulting	4%
Construction	5%
Education	6%
Energy	2%
Government	5%
Health Care and Social Assistance	6%
Hospitality/Travel Food Services	1%
Insurance	1%
Manufacturing	26%
Mining	1%
Non-profit (including education)	4%
Petroleum	-
Professional/Scientific/Technical Services	3%
Real Estate/Rental/Leasing	3%
Retail Trade	3%
Wholesale Distribution	5%
Software/Technology	8%
Telecommunications/Media	2%
Transportation and Warehousing	1%
Utilities	4%

About the Index Values

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

- 34 percent of organizations held larger cash and short-term investment balances at the end of Q2 2018 than they did at the end of Q1 2018, while 29 percent reduced cash holdings in the past three months. The +5 difference was down 13 points from the previous quarter's reading as well as 11 points from a year ago.
- 40 percent of organizations had greater cash and short-term investment balances at the end of Q2 2018 than they had one year earlier, while 24 percent held smaller cash balances relative to a year ago. The difference of +16 is one point lower than the previous quarter's reading and two points lower than the July 2017 reading.
- 25 percent of organizations anticipate expanding cash and short-term investment balances over the next three months, while 22 percent plan to reduce these balances. The net index reading of +3 is four points higher than that reported in April and down 5 points from the July 2017 survey.
- 13 percent of organizations were more aggressive with their short-term investments in Q2 2018 while 4 percent were more conservative. The +9 difference between the two is down two points from the prior quarter and up 5 points from 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 29, 2018.

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."