

AFP Corporate Cash Indicators® July 2020

U.S. businesses continued to accumulate cash and short-term investment holdings during the second quarter of 2020 but did so at a slightly slower pace than the previous quarter; the quarter-over-quarter index reading decreased 4 points to +20. In last quarter's CCI, organizations had anticipated that they would be forced to draw down on cash reserves to remain viable due to the economic impact of the pandemic. Interestingly these numbers reveal that they were able to curb some of that cash burn and were instead able to focus on preserving cash holdings to prepare for what was shaping up to be a very uncertain few months. While the year-over year indicator decreased three points to +29, organizations continued to accumulate cash in the last year at the fourth-highest pace since AFP began collecting this data in 2011.

Organizations that accumulated cash in the second quarter primarily did so because they were building cash holdings as a defensive measure. However, there were some who indicated their company's improved business performance allowed them to increase their cash and short-term holdings during this period. The Payroll Protection Program (PPP) was also instrumental in an uptick in cash and short-term investments at some organizations. Those businesses that decreased cash holdings in the last quarter were compelled to do so primarily due to a deterioration in business performance, mostly a result of the COVID crisis, and corresponding reductions in cash inflows. Slightly over one-fourth of businesses who reported decreasing cash balances, did so to reduce debt. Very few said they were deploying cash to grow their businesses.

The forward-looking indicator, measuring expectations for changes in cash holdings in the current quarter, increased 7 points from last quarter's reading of -15 to -8. Similar to last quarter, financial professionals are predicting they will be drawing down on their cash holdings due to worsening business performance. Debt repayment, particularly of borrowing done during the early months of the pandemic, is also a key reason triggering cash deployment. As in the past quarter, very few senior leaders expect to reduce cash to invest in their business. An uptick in business performance at a small number of companies is allowing them to build cash in the current quarter, while some are looking to accumulate cash holdings to guard against a worsening economic situation.

The CCI measure for short-term investment aggressiveness increased from -23 during the second quarter of 2020 to -17, signaling a continued conservative emphasis on safety and liquidity over yield. This highlights the elevated levels of concern amongst financial professionals and the unease with the current economic environment.

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

July 2019	October 2019	January 2020	April 2020	July 2020
+8	+9	+31	+24	+20

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 2019	October 2019	January 2020	April 2020	July 2020
+11	+20	+33	+32	+29

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 2019	October 2019	January 2020	April 2020	July 2020
+12	+16	-3	-15	-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 2019	October 2019	January 2020	April 2020	July 2020
-3	-10	-1	-23	-17

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	29%
\$50-99.9 million	13%
\$100-249.9 million	12%
\$250-499.9 million	9%
\$500-999.9 million	8%
\$1-4.9 billion	20%
\$5-9.9 billion	4%
\$10-20 billion	3%
Over \$20 billion	2%

Industry Categories

Agricultural, Forestry, Fishing & Hunting	1%
Banking/Financial Services	9%
Administrative Support/Business Services Consulting	3%
Construction	3%
Education	3%
Energy	3%
Government	4%
Health Care and Social Assistance	8%
Hospitality/Travel Food Services	6%
Insurance	4%
Manufacturing	21%
Mining	1%
Non-profit (including education)	7%
Petroleum	2%
Professional/Scientific/Technical Services	4%
Real Estate/Rental/Leasing	2%
Retail Trade	6%
Wholesale Distribution	5%
Software/Technology	5%
Telecommunications/Media	--
Transportation and Warehousing	1%
Utilities	1%

About the Index Values

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

- 48 percent of organizations held larger cash and short-term investment balances at the end of Q2 2020 than they did at the end of Q1 2020, while 28 percent reduced cash holdings in the past three months. The +20 difference was down 4 points from the previous quarter's reading and up by twelve points from a year ago.
- 49 percent of organizations held greater cash and short-term investment balances at the end of Q2 2020 than they had one year earlier, while 20 percent held smaller cash balances relative to a year ago. The difference of +29 is three points lower than the previous quarter's reading and 18 points higher than the July 2019 reading.
- 24 percent of organizations anticipate expanding cash and short-term investment balances over the next three months, while 32 percent plan to reduce these balances. The net index reading of -8 increased 7 points from last quarter's reading and decreased twenty points from a year ago.
- 20 percent of organizations were more conservative with their short-term investments in Q2 2020 and 3 percent were more aggressive. The -17 reading is 6 points higher than last quarter and fourteen points lower 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 26, 2020. 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."