

AFP® Corporate Cash Indicators

AFP Corporate Cash Indicators® October 2021

During the third quarter of 2021, business leaders continued to build cash and short-term investment holdings but at a slower rate than the previous quarter. The quarter-over-quarter index decreased twenty-two points to +21, and the year-over-year indicator too decreased by twenty-four points to +21. These results signal that organizations were accumulating cash reserves at a gradual pace in both the past quarter and year.

A majority of organizations that increased cash holdings during the past quarter did so primarily due to improved business performance, while others were looking to preserve cash to safeguard against any upcoming uncertainty. Some companies attribute their increase in cash holdings to the assistance received from Federal funding. Organizations that decreased their cash and short-term investment holdings in the third quarter explained that their actions were primarily due to poor business performance, which forced them to draw down their cash reserves, though some companies decreased their cash due to debt repayment.

At the beginning of the third quarter, financial professionals signaled they were looking to build cash reserves during the quarter, as reported in the July 2021 CCI report, with a forward-looking indicator of +8. They kept to their word, though they accumulated cash at a slightly higher rate than anticipated. The forward-looking indicator measuring expectations for changes in cash holdings in the fourth quarter increased 10 points from a reading of +8 to +18. A significant share of companies attribute the expected increase in cash holdings in the last three months of 2021 to improved business performance, with a few business leaders reporting they would be building cash at their companies as a defensive measure to safeguard against uncertainty. Those financial professionals whose organizations are expecting to decrease cash and short-term investments during the current quarter indicate their actions are driven by worsening business performance and some attribute this to investments to strategically grow their business.

The CCI measure for short-term investment aggressiveness signaled a more conservative investment posture during the third quarter of 2021, decreasing 13 points from last quarter's reading of +10 to -3. This is likely related to signals from the Federal Reserve that it may increase interest rates in the near future. These results are based on 129 responses from senior treasury and finance professionals this quarter. The CCI is underwritten by Wells Fargo Asset Management.

Currently the U.S. economy is facing severe headwinds. It began with the resurgence of COVID via the highly transmissible delta variant. Though experts do not anticipate COVID will derail economic recovery this time around, the decline in retail sales, dwindling consumer confidence and inflationary pressures can be attributed to some extent to the persistent impact of COVID. Additionally, the global bottleneck in the supply chain has resulted in a significant slowdown in moving goods from ship to shelves resulting in the inability to meet increasing consumer demand. September's employment figures were lackluster, significantly lower than the previous month, as well as far lower than projected. Exacerbating this is recent data reporting that over four million Americans quit their jobs in August. Also contributing to the uncertainty are the roadblocks with the infrastructure bill on Capitol Hill, as well as the tension surrounding the approval of raising the debt ceiling by lawmakers. With all these in play, any reprieve we were expecting with the economy is certainly at risk now. In the current environment, business leaders are adopting a wait-and-see approach when it comes to making investment decisions and likely waiting for more stability all around.

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

October 2020	January 2021	April 2021	July 2021	October 2021
+19	+39	+6	+43	+21

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?

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

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?

October 2020	January 2021	April 2021	July 2021	October 2021
-4	-16	+1	+8	+18

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?

October 2020	January 2021	April 2021	July 2021	October 2021
-13	-5	-5	+3	-10

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	28%
\$50-99.9 million	10%
\$100-249.9 million	13%
\$250-499.9 million	12%
\$500-999.9 million	12%
\$1-4.9 billion	16%
\$5-9.9 billion	5%
\$10-20 billion	2%
Over \$20 billion	2%

Industry Categories

Agricultural, Forestry, Fishing & Hunting	1%
Banking/Financial Services	10%
Administrative Support/Business Services Consulting	3%
Construction	3%
E-Commerce	2%
Education	2%
Energy	2%
Government	2%
Health Care and Social Assistance	6%
Hospitality/Travel Food Services	5%
Insurance	6%
Manufacturing	21%
Non-profit (including education)	9%
Petroleum	3%
Professional/Scientific/Technical Services	2%
Real Estate/Rental/Leasing	3%
Retail Trade	5%
Wholesale Distribution	6%
Software/Technology	5%
Telecommunications/Media	2%
Transportation and Warehousing	1%
Utilities	2%

About the Index Values

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

- 47 percent of organizations held larger cash and short-term investment balances at the end of Q3 2021 than they did at the end of Q2 2021, while 26 percent reduced cash holdings in the past three months. The +21 difference was down 22 points from the previous quarter's reading and up 2 points from a year ago.
- 43 percent of organizations held greater cash and short-term investment balances at the end of Q3 2021 than they had one year earlier, while 22 percent held smaller cash balances relative to a year ago. The difference of +21 is 24 points lower than the previous quarter's reading and 3 points lower than the October 2020 reading.
- 39 percent of organizations anticipate expanding cash and short-term investment balances during Q4 2021 while 21 percent plan to reduce these balances. The net index reading of +18 increased 10 points from last quarter's reading and increased 22 points from a year ago.
- 16 percent of organizations were more conservative with their short-term investments in Q3 2021, and 6 percent were more aggressive. The -10 reading is 13 points lower than last quarter's reading and 3 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 January 24, 2022. 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."