

AFP Corporate Cash Indicators[®]

AFP Corporate Cash Indicators[®] April 2021

U.S. businesses continued to build their cash and short-term investment holdings during the first quarter of 2021 but did so at a significantly lower rate than the previous quarter. The quarter-over-quarter index reading decreased 33 points to +6, signaling that organizations were accumulating cash reserves at a significantly slower pace in the first quarter. This is primarily a result of improved business performance for some, 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 first quarter explained that their actions were primarily due to poor business performance, which forced them to draw down their cash reserves, though some companies deployed cash to invest in their organizations. The seasonality of some businesses also played a role in the decrease in cash holdings. The year-over year indicator decreased by eight points from +29 to +21, indicating that the pace of cash accumulation was lower than one year ago.

In early 2021, financial professionals signaled they were looking to draw down their cash reserves during the first quarter, as reported in the January 2021 CCI report, with a forward-looking indicator of -16. Although their actions indicate they did not do so, results suggest they accrued holdings to a lesser extent than they have in preceding quarters. However, entering the second quarter, the forward-looking indicator, measuring expectations for changes in cash holdings during spring, increased 17 points from their predictions last quarter to a reading of +1, suggesting they plan to accumulate their cash holdings, but at a low rate. Over three-fourths of companies, attribute the expected increase in cash holdings in the second quarter to improved business performance. Another positive indicator is that a third of companies planning to deploy their cash are doing so to invest in their organizations, signaling treasury and finance professionals are leaning towards a more positive outlook as their companies gradually recover from the impact of the pandemic. However, there are businesses that continue to be challenged with worsening business performance, compelling them to deploy their cash to remain viable.

The CCI measure for short-term investment aggressiveness indicated a conservative investment posture during the first quarter of 2021, remaining unchanged from last quarter at -5. These results are based on 121 responses from senior treasury and finance professionals this quarter. The CCI is underwritten by Wells Fargo Asset Management.

After an extremely tumultuous year where we witnessed significant loss of life due to the pandemic, record unemployment, some businesses having to close their shutters permanently and organizations grappling with liquidity challenges to remain viable, it is reassuring to see signs of recovery and cautious optimism among treasury and finance professionals. Respondents not only report an uptick in their companies' performance, but some are also revealing that they are in a

position to invest in their organizations. The successful vaccine rollout is also fostering a more positive outlook as it signals a possible return to normalcy in the months to come. The new administration and the promise of a very generous infrastructure bill is encouraging to business leaders, though the proposed increase in the corporate tax rate might be a deterrent to investment and growth.

The next six months will certainly be crucial as the economy inches towards a recovery. Though the U.S. may be able to suppress the COVID-19 virus, that may not be the case around the world, therefore hindering global travel. Also adding to concerns are tighter regulations with the new administration, tense relations with China and deeply divided lawmakers in Washington. Business leaders will be hesitant to take bold steps as uncertainty looms.

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

April 2020	July 2020	October 2020	January 2021	April 2021
+24	+20	+19	+39	+6

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?

April 2020	July 2020	October 2020	January 2021	April 2021
+32	+29	+24	+29	+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?

April 2020	July 2020	October 2020	January 2021	April 2021
-15	-8	-4	-16	+1

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?

April 2020	July 2020	October 2020	January 2021	April 2021
-23	-17	-13	-5	-5

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	33%
\$50-99.9 million	6%
\$100-249.9 million	9%
\$250-499.9 million	14%
\$500-999.9 million	9%
\$1-4.9 billion	22%
\$5-9.9 billion	1%
\$10-20 billion	2%
Over \$20 billion	4%

Industry Categories

Agricultural, Forestry, Fishing & Hunting	-
Banking/Financial Services	12%
Administrative Support/Business Services Consulting	2%
Construction	2%
Education	4%
Energy	4%
Government	4%
Health Care and Social Assistance	4%
Hospitality/Travel Food Services	4%
Insurance	5%
Manufacturing	22%
Mining	-
Non-profit (including education)	7%
Petroleum	--
Professional/Scientific/Technical Services	2%
Real Estate/Rental/Leasing	4%
Retail Trade	3%
Wholesale Distribution	4%
Software/Technology	6%
Telecommunications/Media	2%
Transportation and Warehousing	4%
Utilities	1%

About the Index Values

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

- 40 percent of organizations held larger cash and short-term investment balances at the end of Q1 2021 than they did at the end of Q4 2020, while 34 percent reduced cash holdings in the past three months. The +6 difference was down 33 points from the previous quarter's reading and down 18 points from a year ago.
- 43 percent of organizations held greater cash and short-term investment balances at the end of Q1 2021 than they had one year earlier, while 22 percent held smaller cash balances relative to a year ago. The difference of +21 is eight points lower than the previous quarter's reading and 11 points lower than the April 2020 reading.
- 30 percent of organizations anticipate expanding cash and short-term investment balances over the next three months, while 29 percent plan to reduce these balances. The net index reading of +1 increased 17 points from last quarter's reading and increased 16 points from a year ago.
- 13 percent of organizations were more conservative with their short-term investments in Q1 2021, and 8 percent were more aggressive. The -5 reading is equal to last quarter's reading and 18 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.

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."