

Corporate Cash Surges \$236 Billion in Q3 to All Time High Cause for Concern

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Corporations in the U.S. added \$236B or 10% to their cash holdings during the third quarter according to data released by The Carfang Group and based in part on the December Federal Reserve Flow of Funds statements. This follows a \$161B surge in the second quarter. Cash is now at an all-time high of \$2.608T.

The six-month increase of nearly \$400B is unprecedented and should be a cause for concern.

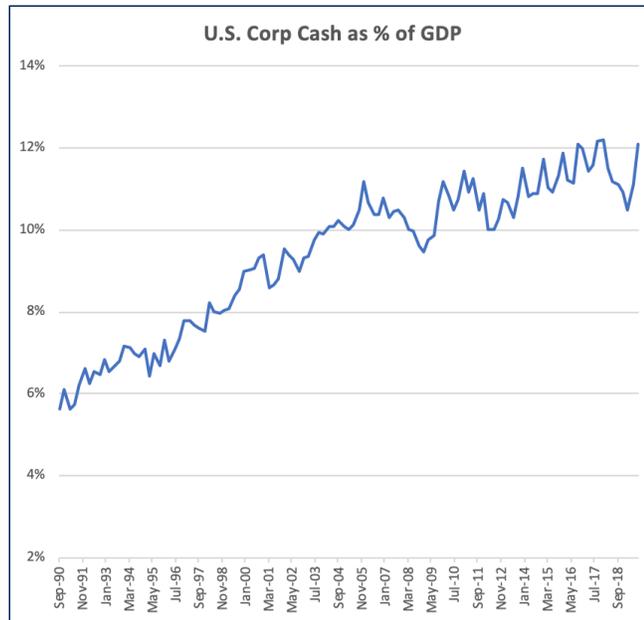
It is not coincidental that this is happening at the same time as major Federal Reserve activities. During 2019, the Fed has paused its interest rate normalization, resumed its crisis era quantitative easing and has experienced dislocations in the repo market. It appears that corporate treasurers are raising cash and waiting out these unclear Fed signals. Implications include a lower return on invested capital for corporations and distorted balance sheets for commercial banks.



Source: Federal Reserve, The Carfang Group

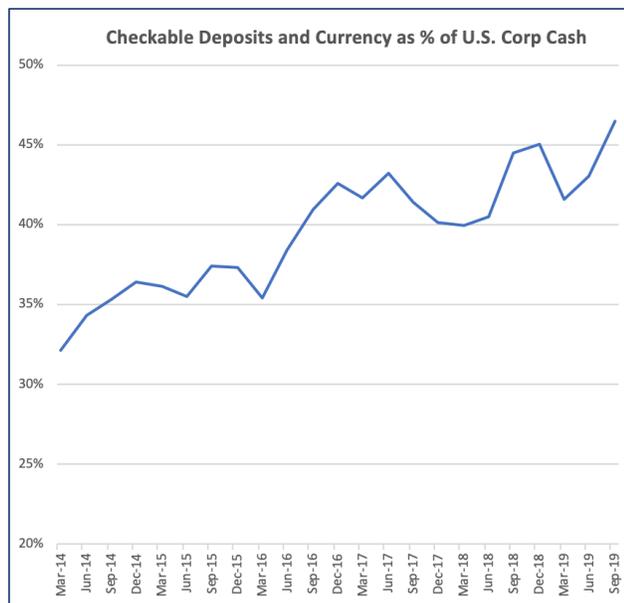
This strong growth in corporate cash in Q3 was powered by a \$190B increase in checkable bank deposits and currency, following a \$100B increase in Q2. Money fund holdings by corporations were also up strongly, \$36B in Q3 on top of the Q2 \$20B increase.

Corporate cash holdings were equivalent to 12.1% of U.S. GDP. As the chart below shows, that is close to its historic high and double the level of the early 1990s. To the extent that the amount of cash necessary to support a given level of economic activity is a measure of market (or regulatory) efficiency, this is a cause for concern.



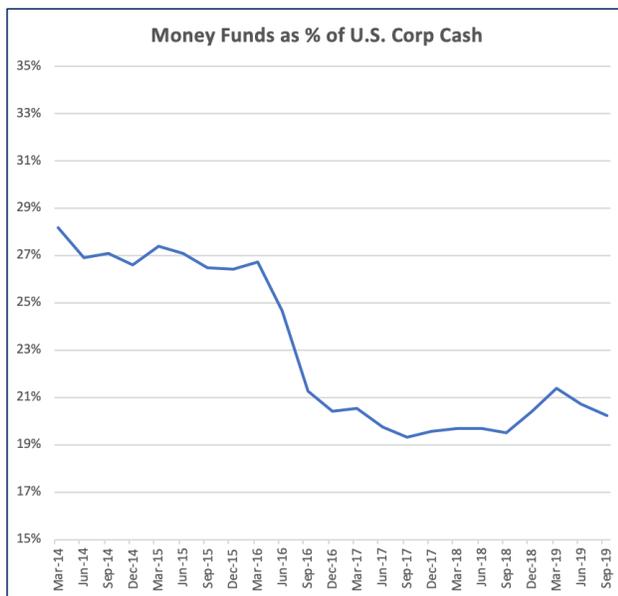
Source: Federal Reserve, The Carfang Group

There are material changes in the composition of that cash total. Checkable deposits and currency now account for 46% of corporate cash, more than double the levels of a decade ago.



Source: Federal Reserve, The Carfang Group

On the other hand, money funds appear to have bottomed at about 20% of corporate cash, a level that flatlined in 2016 when the SEC instituted new regulations. That's more than half the level of a decade ago.



Source: Federal Reserve, The Carfang Group

Earlier this year, I published Megatrends in Treasury, Money and Banking. In that article, I raised concerns about the growing impact of central bank policies. The historic five quarter decline in corporate cash which began in late 2017 is now dwarfed by the current surge. The underlying volatility of corporate cash balances amplifies my concerns.

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