NAB CORPORATE CASH INDEX ... Well that escalated quickly

Corporate & Institutional Transaction Banking

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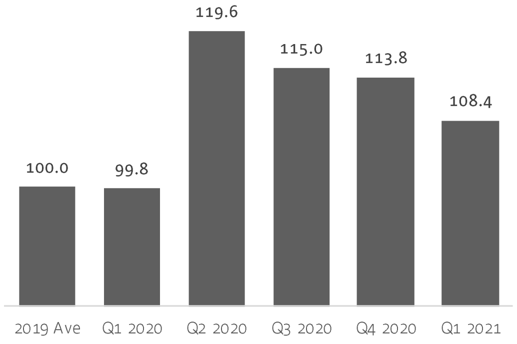
nab

The NAB Corporate Cash Index reveals corporates are dialling back cash hoarding and dialling up optimism as Australia begins to slowly emerge from pandemic-induced economic disruption.

> "We saw a strong flight to elevated levels of cash liquidity throughout 2020. The indicators suggest the cash hoarding trend is starting to unwind."
>
> Shane Conway
> **Member of the Corporate & Institutional Banking Leadership Team, NAB**

NAB Corporate Cash Index



The NAB Corporate Cash Index is a quarterly business index, which draws on NAB's own Corporate and Institutional client insight analytics to monitor cash management trends.

Optimistic companies are more likely to deploy cash for growth orientated expenditures. A declining index suggests expansion in business confidence and activity. Conversely, an increase in the index suggests a conservative view of recovery and outlook.

The pandemic response

Australian corporates quickly bolstered their balance sheets as the pandemic took hold. Cash reserves were quickly built by slashing discretionary spending, drawing on bank lines and raising capital. At the peak of uncertainty, corporate balance sheets ballooned to 119.6pts in Q2 2020, and an in-quarter peak of 141pts in April 2020.

The current cash position is now only 8.4pts higher than pre-COVID levels, indicating higher confidence of business performance for the second half of 2021.

This sentiment is consistent with the latest NAB Quarterly Business Survey (March 2021) which indicates business conditions and confidence are at all-time highs.

As a result, Corporates are now accelerating investment with over 80% of NAB corporates reducing cash holdings in Q1, 2021, up from 36% during Q4, 2020.

Shifting cash priorities

The initial focus for Corporate Treasurers was clear – hold more cash. Maintaining a buffer of available liquidity for near-term obligations given the uncertain economic outlook was seen as prudent and dynamically managing the balance sheet.

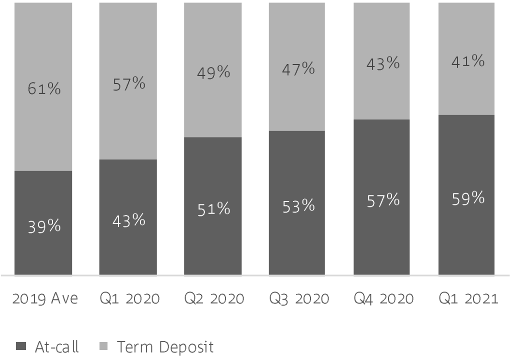
At-call cash holdings peaked at 151pts during Q2 2020, resulting in **at-call balances exceeding term deposits for the first time in over 5 years.**

Low relative yield on term deposits vs. operational accounts, and desire for on-demand liquidity are the key drivers for the tilt to at-call. This has resulted in both new cash raised through debt and cash released from term deposits to be cycled through to operating accounts.

Stabilisation of both the total cash holdings and cash mix between at-call and term are now coming through the latter part of Q1 2021.

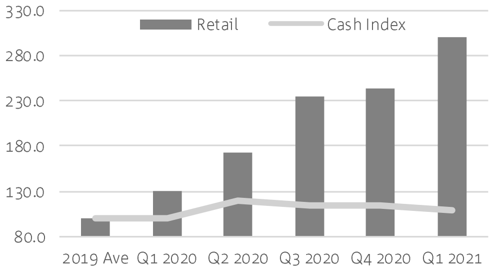
With business conditions and confidence at all time highs, the outlook for cash holdings is likely to be dynamic and responsive to changes in the real economy. Treasurers we speak to are already taking action to continue to optimise their cash and liquidity positions, and take advantage of emerging tools and technology in the process.

Cash mix

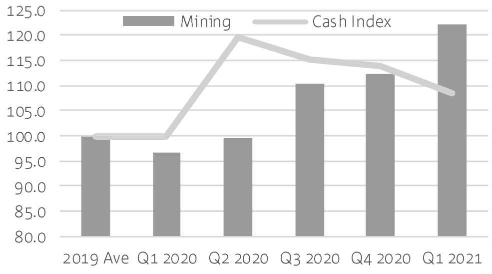


Source: NAB

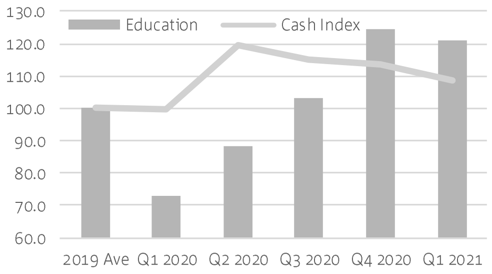
While cash hoarding has declined in general, a closer look at individual industries paints a more nuanced picture.



Source: NAB



Source: NAB



Source: NAB

Retail

COVID-19 had an uneven impact across the retail sector. However, at a headline level, the sector has been bolstered by a shift in consumer discretional spending towards in-home activities with working and learning from home being a semi-permanent fixture and pent-up demands for in-person entertainment, restaurants and travel in the last 12 months.

The lockdowns of 2020 drove a change in consumer spend categories and transformed the role of online retail almost overnight.

The NAB Online Retail Sales Index (March 2021) revealed an initial spike in online sales in March 2020 with growth accelerated to 30% y/y; estimating that Australians spent $46.9 billion on online sales in the 12 months to February, a 48.4% increase from the previous 12 months.

Initially raising cash for liquidity, the surge in consumer spend has resulted in strong sales growth, improved working capital and higher margins, inflating cash to 3 times its pre-COVID-19 level.

Mining

The other success story of the pandemic was mining where a disruption to global supply and an unexpected increase in demand from China caused iron ore to reach USD200 during May 2021.

Combined with a relatively low Australian dollar, mining operators like of BHP, Rio and Fortescue are making larger iron ore related profits now than during the previous mining boom.

Contrasting views do exist on the outlook for this sector. China's demand for steel is expected to remain high for several years, however climbing geo-political tension could impact demand for Australian iron ore.

Tertiary education

Tertiary education is also holding significant amounts of cash, at close to 1.5 times 2019 levels. However, the data suggests a delayed response to cash stockpiling, essentially tracking 1.5 quarters behind the corporate sector as a result of the delayed start to the 2020 academic year.

As public universities, the tertiary sector has a greater reliance on government support, cash reserves and debt markets for liquidity.

Cost saving initiatives, reductions in capital expenditure and additional debt support in the second half of 2020 (combined with other government initiatives) has supported a build up of cash reserves. This has helped deal with the uncertainty of border closures for international students and consequences over the next 2-3 years.

"In conversations with our customers there's now an emphasis on growth and efficiency so we expect to see further rebalancing in the amount of cash and the cash mix on corporate balance sheets over the next quarter.

The other trend relating to cash and liquidity management we're seeing is the digitisation of the treasury function to improve data quality and data velocity to support more dynamic cash decision making."

Johan Westh
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If you'd like to learn more about the NAB Corporate Cash Index for your industry, please contact your Transaction Banking Specialist or Relationship Manager.

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