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Companies Cling to Cash

Coffers Swell to 51-year high as Cautious Firms Put Off Investing in Growth

By JUSTIN LAHART

Corporate America's cash pile has hit its highest level in half a century.

Rather than pouring their money into building plants or hiring workers, nonfinancial companies in the U.S. were sitting on $1.93 trillion in cash and other liquid assets at the end of September, up from $1.8 trillion at the end of June, the Federal Reserve said Thursday. Cash accounted for 7.4% of the companies' total assets—the largest share since 1959.

The cash buildup shows the deep caution many companies feel about investing in expansion while the economic recovery remains painfully slow and high unemployment and battered household finances continue to limit consumers' ability to spend.

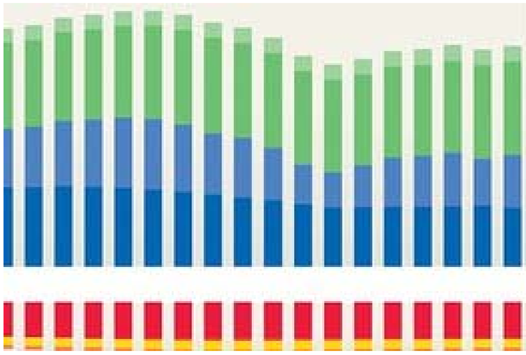
The buildup has a big downside for companies, which get little return on their money because interest rates are low, but it reflects the relatively few opportunities they see to deploy their cash more creatively.

"The corporate sector is looking at the household sector and saying, this is not the environment where we should expand our business," said Deutsche Bank economist Torsten Slok.

In one bright sign, the Fed's data, known as the "flow of funds" report, show that the net worth of U.S. households increased to $54.9 trillion in the third quarter, up from $53.7 trillion in the second quarter, as rising stock-market wealth more than offset declining home values. That was still well below the second-quarter 2007 peak of $65.7 trillion. After-tax household income rose to an annualized $11.42 trillion from $11.37 trillion in the second quarter.

Reshaping the Balance Sheet

The cash pooling up at companies has the potential to help the economy grow more vigorously and bring unemployment lower—if they start spending it on new plants, equipment and employees.



Shifting assets and debt of U.S. corporations, government and households

But in the wake of the worst economic downturn since the 1930s, companies are hesitating to make that shift, said Brian Bethune, economist at IHS Global Insight.

In the aftermath of the 2000 dot-com bust, many nonfinancial companies adopted a more conservative stance, holding more cash, and less debt. When the recession hit in late 2007, and the financial crisis erupted in 2008, their stronger balance sheets helped them weather the storm.

"They did well by being conservative," said Mr. Bethune. "Why would they depart from that?"

FMC Corp., a chemical company based in Philadelphia, is among those that have sharply reduced their debt loads and increased their access to cash in recent years, a shift that helped shield many businesses from the downturn.

The company doesn't plan to expand beyond its three main areas of business—herbicides and pesticides, food additives, and lithium that goes into batteries. Nor does it plan to make any major acquisitions. It is exploring ways to reinvest its cash in the company and, if it can't, it will likely pay it out to shareholders through dividends and stock buybacks, according to Chief Financial Officer Kim Foster.

But the company will likely maintain the conservative stance it adopted prior to the financial crisis. "That decision has been validated," Mr. Foster said. "We're not going to be financially aggressive going forward."

Much of the cash accumulating in corporate coffers belongs to technology companies, which typically don't need to tie up nearly as much money in plants, real estate, equipment and inventory as do manufacturers and retailers.

Tech companies in the Standard & Poor's 500-stock index now hold some $352 billion in cash and short-term investments, according to Standard & Poor's index analyst Howard Silverblatt.

Among the top holders are Microsoft Corp., with $43.25 billion in cash and short-term investments; Cisco Systems Inc. with $38.9 billion; and Google Inc. with $33.4 billion.

But the propensity to save rather than spend shows up across the corporate landscape.

With sales slumping, Avery Dennison Corp., a Pasadena, Calif. maker of labels and packaging materials, laid off workers and cut its dividend last year in an effort to preserve cash.

As sales began to come back, the company's cash hoard swelled. In the quarter ended Oct. 2, Avery Dennison held $157.8 million in cash and cash equivalents—up from $91.9 million a year earlier.

The company will likely spend more money, said Chief Executive Dean Scarborough. But unlike in the early 2000s, when Avery Dennison made a string of acquisitions and invested heavily in emerging markets, it will take a conservative approach to expansion.

"There will be a modest increase in capital spending and a modest increase in hiring," Mr. Scarborough said. "If we do acquisitions, they'll likely be small."

When Fastenal Co. considered what it might do with the cash built up on its balance sheet in recent quarters, it decided that giving it back to shareholders was a better idea than investing it in growth. Fastenal said it made the decision partly because of uncertainty about tax policy on dividends next year.

On Monday, the Winona, Minn.-based company, which sells screws, nuts, bolts and other supplies to factories and construction companies, paid out a special dividend of 42 cents a share, or roughly $62 million.

But even after the dividend, Fastenal, which had $172 million in cash and cash equivalents in the third quarter, is holding more cash than it did prior to last year.

"We're saving our firepower for when opportunities might come up," said chairman and founder Bob Kierlin.