



One of the big concerns now is that the non-financial corporate biggies are hoarding cash and doing so at an astounding level which clearly shows that American business is not placing its trust in the country's economic status, says **Kunal Kumar Kundu**

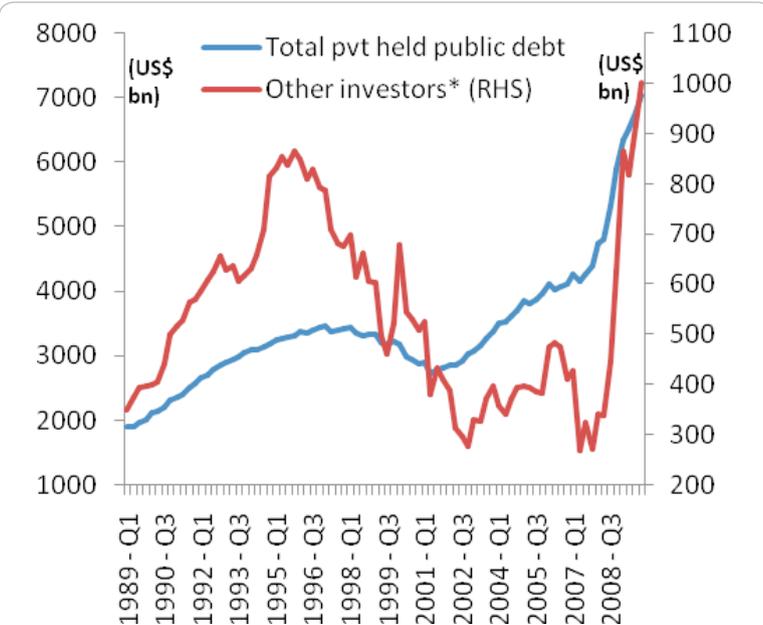
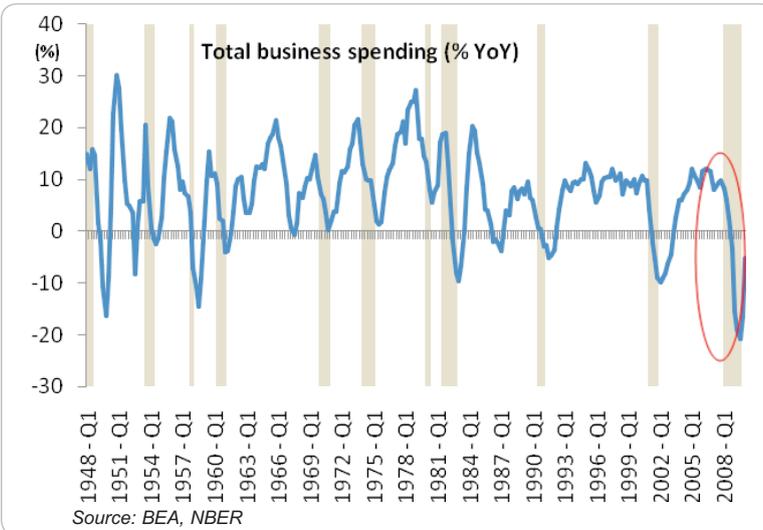
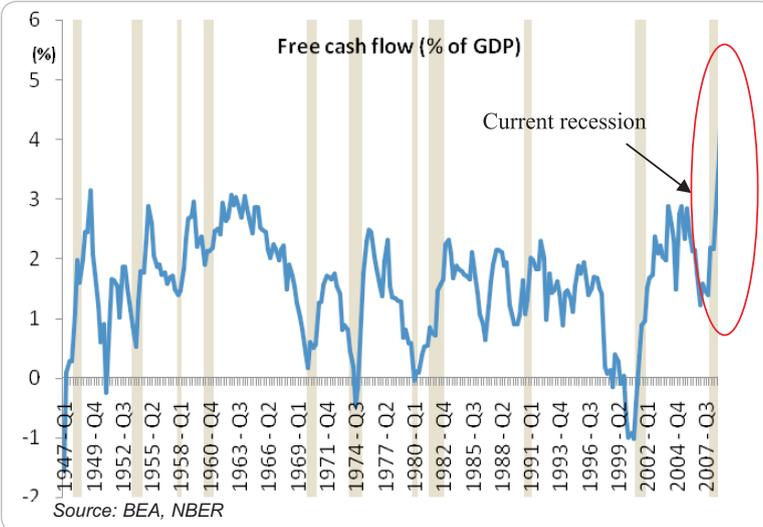
Lacking In Confidence

So far I have been focusing on how badly the US consumers have been impacted during the current recession. In fact, I believe that the US is headed for a deflation as 70 per cent of the economy (read domestic consumers) is highly stressed. Even at the risk of repeating myself, let me highlight a few points to bring forth the pain:

- A little more than a quarter of the US consumers have a FICO score of 599 or less, marking them as high-risk borrowers.
- Recently the FDIC has written off outstanding credit cards due to the tune of USD 18.7 billion.
- Although the pace of the fall has slowed down, house prices are still falling and foreclosures continuing.
- More than 2.5 million Americans have exhausted their jobless benefit since the deadline expired in June and Barack Obama has thrown in a lifeline by extending the same.
- More than 40 million Americans are living on food stamps.
- Retail sales and consumer confidence are down.
- And, unemployment remains stubbornly high.

Surely, if these are not signs of stress, there never was any. The aim of this article, however, is to explore how the business is doing. To me, a great concern is that the non-financial corporate biggies are hoarding cash and doing so at an astounding level.

As can be seen, there has been a sharp jump in the non-financial corporate free cash flow as a percentage of GDP during the current recession, going up to as high as 5.17 per cent of the GDP. To me, what this indicates is that business is quite skeptical about the economy going forward. Clearly they are not convinced that consumers are



* Includes individuals, government-sponsored enterprises, brokers and dealers, bank personal trusts and estates, corporate and non-corporate businesses and other investors.



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going to come back in droves anytime soon. Not surprisingly, given their lack of confidence on the domestic demand, business spending remains muted.

Given the sharp decline in business spending during the recession, there is some recovery but the fact is that the current business spending continues to be lower than what it was a year ago. In essence, the recovery that is visible is more about the falling pace of decline. So where is this free cash going? My hunch is that the corporates are playing safe and putting their money in US treasuries.

Surely, the sharp spurt in flow of fund from other investors to treasuries does not leave much to imagination. This is good news for the US government as the increased demand for treasuries ensure continued low interest which, in turn, makes it easier to finance the deficit at low cost. But that's essentially where the good news ends. The possibility of a double dip cannot actually be ruled out. With the European economies under stress (the recent positive result of the bank stress testing in Europe notwithstanding, which was more of a PR exercise rather than much of any meaningful intent to unearth the reality), the flight to safety toward longer term US treasuries is actually leading to a gradual flattening of the yield curve. While this time I do not expect an inversion of the yield curve given that the short-term yield is near zero, these are telltale signs of impending problems.

(Views are those of the author. Send your feedback to comment@dsij.in)