Corporations Poised for Investment in Equipment and Software in Second Half of 2012

New TD Economics report anticipates 6-8% growth in investment, due to companies’ record high profits and liquidity as a share of GDP

PORTLAND, ME and CHERRY HILL, NJ – May 25, 2012 – Corporate America is underinvesting relative to its availability of funds, according to a report released today by TD Economics (www.td.com/economics), an affiliate of TD Bank, America’s Most Convenient Bank®.

The report, titled, “Milking America’s Cash Cow: The Case for Stronger Investment Growth,” asserts record-high corporate profits and liquidity (as a share of GDP), along with a need for updated equipment, may drive companies’ investment in equipment and software over the next two quarters at a 6-8% rate. The sub-2% rate of growth in the first quarter of this year is not consistent corporate balance sheet fundamentals.

According to the report, corporate profits make up 10% of GDP, nearly double its pre-recession average, while the ratio of current assets to short term liabilities—a common measure of liquidity—has risen to levels not seen since the 1950s. As a result, a substantial gap has emerged between cash-on-hand and equipment investment.

“Historically, investment deficits do not to last when corporate balance sheets are strong,” said Beata Caranci, Vice President and Deputy Chief Economist, TD Economics. “As the economy continues to stabilize, healthy finances give businesses the means to expand investment.”

The severe pullback in investment during the recession caused the nation’s stock of equipment & software to shrink in real terms for the first time since WWII. There is evidence that the process of rebuilding that stock is not yet complete, even in the face of rising consumer demand.

While this should help drive investment growth going forward, Caranci does caution that “investment intentions are sensitive to shocks. An unruly resolution to Europe’s debt crisis would likely delay or mute intentions to rebuild the stock of equipment and software. Even so, investment tends to rebound quickly once the negative shock parts way.”

“The recession has yielded a wealth of investment opportunities that businesses haven’t taken full advantage of,” said Anthony Sasso, Head of TD Bank’s TD Equipment
Finance unit. “We see an ongoing need to replace depreciated asset stocks and are always at the ready to serve as a resource for our clients with capital-intensive businesses.”

Of course, there are still macroeconomic risks to weigh. If Europe’s crisis intensifies, or if the U.S. slips, businesses may opt to keep a tight lid on investment for the time being.

For the full report, click here or visit http://www.td.com/document/PDF/economics/special/cj0512_investment.pdf.

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