

$$\begin{aligned}
 &\text{Estimated change in total loans for the coming period} \text{ is a function of } \left[ \begin{array}{l} \text{projected growth in the} \\ \text{economy} \\ \text{(for example, the} \\ \text{growth of gross domestic} \\ \text{product [GDP] or} \\ \text{business sales)} \end{array} \right], \left( \begin{array}{l} \text{projected} \\ \text{quarterly} \\ \text{corporate} \\ \text{earnings} \end{array} \right), \\
 &\left( \begin{array}{l} \text{current rate of} \\ \text{growth in the} \\ \text{money} \\ \text{supply} \end{array} \right), \left( \begin{array}{l} \text{projected prime} \\ \text{loan rate} \\ \text{minus the} \\ \text{commercial} \\ \text{paper rate} \\ \text{or CD rate} \end{array} \right), \text{ and } \left( \begin{array}{l} \text{estimated} \\ \text{rate of} \\ \text{inflation} \end{array} \right) \quad (11-2)
 \end{aligned}$$

**Factoid**

Did you know that robberies of cash from banks have been on the rise again in recent years due, in part, to banking offices that stress customer convenience and easy access rather than security? Does this seem to make sense as a business decision? Why?

$$\begin{aligned}
 &\text{Estimated change in total deposits for the coming period} \text{ is a function of } \left[ \left( \begin{array}{l} \text{projected growth} \\ \text{in personal income} \\ \text{in the economy} \end{array} \right), \left( \begin{array}{l} \text{estimated} \\ \text{increase in} \\ \text{retail sales} \end{array} \right) \right], \\
 &\left( \begin{array}{l} \text{current rate of} \\ \text{growth of the} \\ \text{money} \\ \text{supply} \end{array} \right), \left( \begin{array}{l} \text{projected yield on} \\ \text{money market} \\ \text{deposits} \end{array} \right), \text{ and } \left( \begin{array}{l} \text{estimated rate} \\ \text{of inflation} \end{array} \right) \quad (11-3)
 \end{aligned}$$

Using the forecasts of loans and deposits generated by the foregoing relationships, management could then estimate the bank's need for liquidity by calculating

$$\begin{aligned}
 &\text{Estimated liquidity deficit (-) or surplus (+) for the coming period} = \text{Estimated change in deposits} - \text{Estimated change in loans} \quad (11-4)
 \end{aligned}$$