

# Canary in the Coal Mine: Bank Liquidity Shortages and Local Economic Activity

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Discussion by

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# Summary

- Question
  - ▶ Do deposit rates forecast economic downturns?
- Approach
  - ▶ Estimate relationship between deposit rates and local economy
  - ▶ Use natural experiments to validate this link
  - ▶ Compare to other indicators and at aggregation
- Key Results
  - ▶ Deposit rates highly predictive of downturns (AUC = 0.73)
  - ▶ Deposit rates rise in response to outflows
  - ▶ Results aggregate to larger geographic levels
- Comments
  - ▶ Forecasting
  - ▶ Deposit Supply
  - ▶ Competition and Risk

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  - ▶ However, so does employment, income, and GDP itself

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|                   | $\log(GDP_t)$          |                       |                       |                       |
|-------------------|------------------------|-----------------------|-----------------------|-----------------------|
|                   | (1)                    | (2)                   | (3)                   | (4)                   |
| $\log(GDP_{t-1})$ | 0.8311***<br>(0.0166)  | 0.8709***<br>(0.0077) |                       |                       |
| $\log(GDP_{t-2})$ | 0.0615***<br>(0.0144)  |                       | 0.7606***<br>(0.0127) |                       |
| $\log(GDP_{t-3})$ | -0.0349***<br>(0.0099) |                       |                       | 0.6474***<br>(0.0170) |
| County            | Yes                    | Yes                   | Yes                   | Yes                   |
| Obs               | 57,069                 | 63,419                | 60,244                | 57,069                |
| R <sup>2</sup>    | 0.99773                | 0.99769               | 0.99614               | 0.99479               |

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- **Suggestion:** Demonstrate improvement over using local economic conditions

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  - ▶ Shift-share style research design (Greenstone, Mas, and Nguyen, 2020)
  - ▶ Separately estimate county-time and bank-time FE

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- ▶  $\alpha_{c,t}$  measures granular household supply of deposits  
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  - ▶ Firms with headquarters in high-deposit rate localities
  - ▶ Municipalities with high-deposit rates

# Conclusion

- Timely research question relates rate changes to economic conditions
- Robust performance of a granular and parsimonious factor
- Exploring additional avenues could prove fruitful