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Forecasting in a post—COVID world

How should you be planning for a post-covid world? By developing the most accurate forecast possible? Or instead using the imperfect information at hand to make decisions while understanding the risks if your forecast assumptions turn out to be wrong? Throughout the pandemic, community banks have had to react quickly and decisively to a constantly changing environment, often with little information to go on. And yet things have turned out reasonably well. How can you maintain the benefits of nimble decision making as you plan for 2021?

You are used to making strong forecast assumptions about the economy, your customers' behavior and your competitive environment. However, today is one of those times when everything seems poised to change and our confidence in how exactly the future will pan out is low. Consider these questions, ignore all the chatter in the news, and ask yourself how confident you really are in the answers:

- Will pent-up consumer demand for housing, goods and services result in a spending frenzy? Or will pandemic frugality and consumer deposit growth continue?
- Will vaccination and virus containment efforts allow us to resume "normal" life?
- Will we see higher inflation and rising interest rates or a return to the low rate environment of 2020?
- Will loan demand return to pre-pandemic levels? If so, which sectors will drive the resurgence? Can lending spreads be sustained or increased as you grow your loan book?
- Will depositors begin demanding higher rates?
- Will customers return to our branches or permanently shift to online tools?

With so many variables in flux, the chances of getting your forecast or budget exactly right are low. While you're not excused from developing and executing a strategic plan, it's worthwhile making a higher priority of understanding the risks of your forecast assumptions getting turned on their head.

Several straightforward approaches can help quantify the sensitivity of future earnings to forecast assumption errors. These tools offer a good sense of "the size and the sign" of the risk – big or small, positive or negative. From there, you can dig deeper into the forecast assumptions that you are most sensitive to and focus your risk analytics on those assumptions. EPG offers analytic tools and professional expertise that can help with this. Armed with a better understanding of how specific assumptions may affect your forecasts, you can focus instead on the important issues.

EPG, Inc. is proudly celebrating 25 years serving community based financial institutions with investment and asset/liability solutions.

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