HAPPY NEW YEAR

by Steve Brown

We should have known something was going to be different when our New Year's Party invitation came with yellow underwear. As the clock ticked closer to midnight, our Peruvian host started to explain to us their post-New Year's tradition in their country. Most Americans, assuming they can even stay up past midnight, are used to kissing, sipping Champaign and remarking how young Dick Clark still looks. In Peru, when 12 o'clock hits, you need to get moving. At midnight the first thing you do in Peru is to throw out all the raisins in your house, since that represents the old, dried up year. Next, everyone shows their yellow underwear (which has to be given to you) representing newness, excitement and gold. After that, you proceed to drop a coin in your shoe (wealth) before you line up in a single file line to crawl on your hands and knees eating 13 grapes (using only your mouth to pick up the grapes) under the dining room table. For each grape you have to say the month (plus the 13th for extra good luck) and to fumble a grape is to invite bad luck for that month. Once you are finished eating the grapes, you grab a suitcase or backpack that you brought and run around the block to signify good luck in travel. Granted this could have been all for our host's enjoyment, but needless to say when you have a bunch of drunken middle aged adults crawling and eating grapes, hilarity will ensue. We don't know about how much luck the antics generated, but it made for a fun New Year's Eve party. Good luck will be needed this year, as 2012 looks to be challenging. No doubt you have or will be inundated with predictions, so before we make our own, we wanted to recap how everyone did in 2011. Back in 2010, the general consensus for economic growth, corporate profits, equity levels and interest rates were generally optimistic. Most of the major bank economist predictions were grouped around a fairly tight range, which we have averaged and compared to actual performance. For example, the average bank economist predicted back at the end of 2010, that 2011 would result in GDP of 3.4%. Actual GDP came in much lower at 1.8%, due to slower job creation and decreased global demand (a 47% variation). For the S&P, the average year-end price target in 2010 was at the 1,450 level and the broad index actually finished the year at 1,258 (a 13% variation) - one of the tightest ranges on record (which is ironic, as the market also demonstrated some of the largest volatility on record). Economists were split on their inflation predictions, with some talking about runaway inflation of 3% or more and many predicting negative inflation. On average, bank economists predicted a core CPI of +0.5% which compares to a +1.7% actual rate (240% variation). When it came to interest rates, the consensus forecast for the 10Y Treasury was 3.75%, far above the 1.88% actual (50% variation). So how did the economists do for 2011? Well, let's just say they could use some Peruvian luck, as the average variation for the above major indices was 88% - not exactly in the right ballpark and more important, only directionally correct 50% of the time. However, predicting is a difficult business and it was an extremely volatile year, so we will cut these 20+ economists some slack. For what it is worth, we have also compiled the average consensus for 2012, which can serve as a basis for your own predictions. Once again, most economists are grouped in a narrow range, but, in contrast with last year's almost universally bullish views on the economy and on the U.S. stock market; the consensus is far more downbeat. Most are touting the "new normal," which reflects more de-leveraging, de-globalization and re-regulation. For 2012, U.S. GDP is forecasted at 1.8%; the S&P is expected to close at 1,250 and core CPI is predicted to hit +1.7%. For Treasury yields, the 10Y should finish at a 2.50% yield. We wish these economists the best of luck, as we do to all community banks. Given our activities over New Year's, we should have plenty of luck to go. We just wish we knew when to take the golden underwear off...

BANK NEWS

Lending

The Fed reported last week that banks had strong C&I loan growth and saw further growth in credit card loans. C&I loans were up 1.4% last week and are now up about 21% annualized, well above 3Q growth which was also strong. Credit card loan growth benefitted from seasonal trends.

Opportunity Knocks

Bank of America is reportedly cutting lines of credit to some small business owners, as the bank seeks to raise capital and reduce risk. BofA is demanding some small business customers pay off credit line balances in full, instead of making monthly payments, or face new repayment plans at higher interest rates. Other changes include annual borrower reviews, annual fees and reductions in the maximum amount of credit.

No Deal & More Talks

Bloomberg reports Regions Financial has reportedly ended talks to sell its Morgan Keegan brokerage to Stifel Financial after the two companies could not reach agreement over terms. Regions' is reportedly now in talks with Raymond James as it seeks a buyer for Keegan to boost capital and repay $3.5B in TARP.

2012 Big Bank Changes

The Treasury said it will start charging banks with more than $50B in assets a to-be- determined fee based on consolidated assets to cover the cost of the Financial Stability Oversight Council and the Office of Financial Research. DFA requires the government to bill banks for operations, which will start in mid 2012.