

Bellwether U.S. banks set to indicate economy's direction

JPMorgan, Merrill Lynch, Citigroup to report earnings

YUKO KAWAMOTO
Professor, Waseda University

This week will see a spate of business results announcements by leading U.S. financial institutions. JPMorgan Chase & Co. will report its January-March period earnings on April 16. Merrill Lynch & Co. will follow the next day, and Citigroup Inc. will deliver its on April 18.

Given mounting concern about the U.S. economy sliding into recession, the balance sheets of these top-notch banks will come under scrutiny as investors look for clues to the final amount of their sub-prime loan-related losses — as well as to the future course they will follow.

In the past, when U.S. banks suffered earnings deteriorations they managed to turn themselves around by quickly cleaning up bad debt, which, of course, entailed taking losses.

This time around, however,

they cannot achieve swift recoveries because their losses are coming from housing loan securities, which are closely tied to the real estate and securities markets.



It is said that U.S. financial institutions more strictly assess the amount of losses when they close books for a full year than when

they prepare only quarterly reports. These January-March quarter results, then, which will come out just three months after the results of fiscal 2007 ended December, will be closely studied.

The reason is simple — they will either show massive losses and signal more losses to come, or they will indicate that the worst of the financial crisis is almost over.

At present, U.S. financial authorities are considering tightening regulations and oversight of financial institutions. But tighter regulations that focus on minimizing risks for institutions could obstruct the development of the financial markets.

A new framework should be devised so individual banks are allowed to take a certain degree of risk but that still prevents the whole financial system from facing a formidable crisis.