US banks kick off their earning season this week, with JP Morgan unveiling its fourth-quarter results.

Analysts are predicting that banks will have seen a "miserable" end to the year, with little or no growth.

As the first big bank to report, JP Morgan is watched as a barometer for the industry. Goldman Sachs and Morgan Stanley will follow next week.

JP Morgan posted a slight drop in third-quarter earnings because of its weak investment banking operations.

'Modest loss'

JP Morgan had reported some of its least impressive results in the third quarter.

Its investment banking operations reported revenues of $6.4bn, lower than the $8.2bn and $7.3bn in the previous two quarters.

In December 2011, the bank's chief executive Jamie Dimon said its investment banking revenues for the quarter should be "flat".

He also said the bank's private-equity business would end up with a "modest loss" for this quarter.

Meanwhile, in its third-quarter results, Goldman Sachs had reported only its second loss since its flotation in 1999.

And, although the other banks that are reporting - Morgan Stanley, Bank of America, Citigroup, and Wells Fargo - all posted healthy headline profits in Q3, their figures were aided by accounting changes that will not be of benefit in Q4.

'Miserable'

William Wright, investment banking columnist at Financial News, said he said the overall Q4 picture was going to be "pretty miserable".

"The first half of 2011 was positive for everybody, the third quarter was not good, and the fourth quarter will be not much better.

"JP Morgan has already said the fourth quarter will be like the third, when it hardly made any money."

And other analysts agree that 2011 ended on a flat note.

"I suspect that the results are going to be in line with the previous quarter," said Ralph Silva, a banking analyst at the Tower Group research and consulting firm.

"The composition of the results might change, though."

He added: "Trading is slow. However, retail is making some sort of recovery, with some improvement in that area."

He also said that a shrinking of investment cash, within the US and globally, meant a lower number of operators in the investment banking sector, which favoured the bigger players.

"The banks we are going to be hearing reporting have managed to keep enough business to keep their investment side of things viable," Mr Silva said.

But he said the global operations for those six banks were going to be poor.

"They are making less money outside the US than they were previously," he said.

Tests

The year ahead is an important one for US banks, with continued uncertainty about European sovereign debt.

And in December 2011, the US Federal Reserve proposed a raft of new rules for large US banks aimed at strengthening the financial system against another collapse.

Banks with more than $50bn in assets will have to increase the minimum amount of cash they hold.

The largest institutions will face even tougher requirements.

"They [the big US banks] have been worried about this for a long time, but they have adjusted and are ready for it," says Mr Silva.

"Their capital positions are going to be better than expected, which is why we are seeing those stress tests.

"The last thing the US wants is for their banks to fail those test."

'Over-capacity'

It comes after a year in which financial institutions were the worst-performing industry in the US.

Bank stocks and earnings fell in 2011, while banks were the worst performers from 10 sectors tracked within the S&P 500 share index.

Investors had stayed out of volatile banking markets towards the end of 2011.

"There were three things we saw last year," says Mr Wright.

"The cost of doing business went through the roof, there were regulatory proposals to reduce banks' willingness to take huge risks, and there was the eurozone crisis.

"As a result, volumes and activity have fallen sharply. All the above mean there is massive overcapacity."

He added: "I can't see any massive rebound coming."

Source :bbc.co.uk