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Financial Services Industry Remains Cautious After Year Of Market Instability, Layoffs

Heavy Federal Regulation,
European Debt Crisis Continue To
Impact The Sector Through 2012

■ By **TIFFANY RIDER**
Senior Writer

After a year of policy changes, market instability and massive layoffs, executives in the financial services sector bid adieu to 2011 and welcome 2012 with caution.

Other than public sector jobs, the financial services sector saw the most job cuts of any other industry in the United States in

2011. According to outplacement company Challenger, Gray & Christmas, Inc., the financial industry dealt with 63,624 layoffs last year, up from the 23,996 jobs the sector shed in 2010. However, in its December 2011 Job-Cut Report, the year end job-cut total for all sectors was still below half of what is being called the job-cut peak in 2009 of 1,288,030 layoffs nationwide.

"In the financial sector, the economic troubles in Europe will continue to be a cloud hanging over Wall Street in 2012," John Challenger, CEO of Challenger, Gray & Christmas, said in the report. "While temporary fixes have been put in place for

the time being, there is still heavy risk of a collapse, which would ripple quickly through the global banking system. On the home front, many banks are still saddled with millions of foreclosed properties worth a fraction of their original values."

The report also cites the top three reasons for job cuts in December are, in ranking order: economic conditions; closing; and restructuring. According to the Federal Deposit Insurance Corporation, the nation had 92 bank failures in 2011 – down from the 157 closures in 2010. California saw 12 banks shut down in 2010, but only four

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banks closed last year. The financial reform legislation approved in 2010 by the federal government and President Barack Obama may have had an influence on financial services jobs due to company restructuring efforts made to adhere to stricter regulation and more government oversight.

As businesses restructure and operate leaner in 2012, people continue to be concerned about who might win the presidential election and what is happening on a global scale, particularly in Europe. According to John Molina, chief financial officer of Fortune 1,000 publicly traded company Molina Healthcare in Long Beach, we are currently heading into a sideways-moving economy in which we may see some modest growth. Molina sits on a number of local and regional boards, including the board of the Los Angeles Federal Reserve Bank.

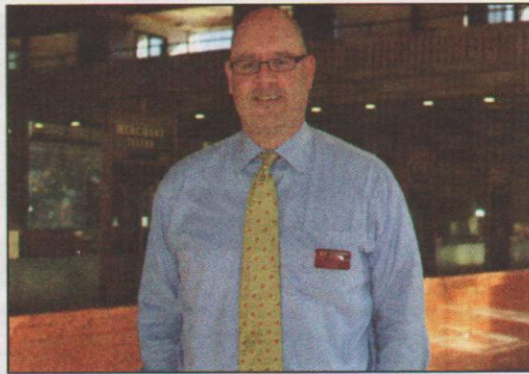
"Europe is still a big concern for everyone," he said. "If it goes well, it has the ability to help stabilize the economy. If it goes poorly and they are not able to figure a solution out, then that is going to provide a big drag on the economy because people are going to be worried. When people are worried, they're not going to do anything. . . . Until there is some clarity there, people are not going to want to go out and risk their extra capital," he said. "The entrepreneurs are going to be in a wait-and-see."

Amid Fiscal And Political Uncertainty, Expectations Are 'Bullish' For 2012

There is a lot of policy risk and political uncertainty out there, said Travis Barr, resident director and vice president for Merrill Lynch in Long Beach. Although the structural adjustments necessary to adhere to federal regulation are going to take time, which Farmers & Merchants Trust Company's Vice President and Investment Officer Jay Ferrara said "isn't good for business," both Ferrara and Barr agree that the current market situation does have its opportunities. Priority number one, Barr said, is to work with a trusted investment professional or advisor to "look tactically and opportunistically, but proceed with caution moving forward."

Trent Bryson, vice president of Bryson Financial in Long Beach, said he expects 2012 to be a bullish year for investments, with potential for a 9 percent rally in the stock market. "Companies are back to making money, even though there's some unemployment that's still high and some other issues," Bryson said. "For most of the big companies, they've cut the fat and gotten back to making money however they could. Their gross revenues may not be as high, but their profits are returning." Barr concurs, suggesting potentially a 10 percent boost overall. "There is an opportunity out there because of the potential liquidity going into the market, modest earnings growth and cheap valuations in the stock market," Barr said.

As to which companies are expected to do well in the 2012 stock market, Bryson suggested those that are smaller and more nimble, with "a competitive advantage in that they can make changes to adapt to their environment a little bit easier than large companies." Because many of the dividend-paying companies are paying higher stock dividends than interest rates



Jay Ferrara, vice president and investment officer with Farmers & Merchants Trust Company in Long Beach, said though the down jobs and housing markets have created economic uncertainty, the company's clients are confident in Ferrara's expectations of the bearish market in 2012. (Photograph by the Business Journal's Thomas McConville)

on bonds, Bryson said he thinks the "higher dividend-paying stocks are more attractive in a conservative environment."

Bryson said he is skeptical on the 2012 bond market, projecting a 2 percent growth rate for the year based on bonds being "overbought" and the potential for inflation. Barr suggested interest rates are going to stay low, based on Merrill Lynch's projections and the promises of the Federal Reserve, possibly through 2014. "That's going to be tough on some clients trying to find the income to live their lives and reach their goals," Barr said.

Price Hike Likely For Business Insurance Lines In 2012

Though 2011 was a fairly stable year in terms of insurance pricing, Kelly Williams, president of Long Beach-based Kelly Williams Insurance, said employers should expect to see workers' compensation increase significantly and, in some cases, hit double digits in 2012. Other lines, such as "directors and officers" insurance and "employment practices" insurance, are also expected to go up.

Over the past couple of years, the industry has seen a significant number of claims due to natural disasters like tornadoes, earthquakes and tsunamis, which has increased the price of reinsurance sold by large international conglomerates to insurance carriers. However, for personal insurance lines like home and automotive insurance, as well as corporate property lines, rates are expected to remain fairly flat, increasing maybe one or two percent, Williams said.

This year, Williams said, more companies may add employment practices insurance — coverage protecting employers from being sued for hiring or firing issues — as businesses expand or explore new ventures. Because of this, Williams said he has definitely seen a boost in his business over the past couple of months. "But more so than that, it's really the optimism going forward," he said. "It seems that the clients are gearing up for a busier year, talking about new ventures, increasing business, expanding business. So when clients are talking about that, it obviously means an expanded role for us."

Local CPA Reports Tax Changes For 2012, Benefit Opportunities For 2011 Return

Blake Christian, certified public accountant and partner at Holthouse, Carlin & Van Trigt, reviewed state and federal tax information to benefit individuals and business owners on their 2011 tax returns and for the 2012 year.

At the state level, Christian noted that the top individual income tax rate dropped down to 9.3 percent after spending two years at 9.55 percent. In addition, the standard deduction for single or separate filing tax statuses rose from \$3,670 to \$3,769. Joint, head of household filing or surviving spouse filings rose from \$7,340 to \$7,538.

For 2012, taxpayers may use tax look-up tables provided by the State Board of Equalization for reporting individual non-business purchases of up to \$1,000 for personal income tax reporting.

For businesses, net operating losses (NOL) cannot be used to offset taxable income on a 2011 return. There is an exception for small businesses with taxable income of less than \$300,000 for 2011. But, overall, the use of NOL has been pushed back to 2013, meaning that NOL incurred in that year may be applied to 2011 and 2012 if the business is profitable.

Also, the New Jobs Tax Credit applies to businesses with fewer than 20 employees in 2010 but added full-time equivalent employees in 2011. Each employee hired can generate a credit of \$3,000, which may be carried over five years. Christian also touts the state's Enterprise Zone program, which provides hiring tax credits to qualified businesses. Both of these credits are only applicable if a business has tax liability.

On the federal side, Christian said the Work Opportunity Tax Credit might benefit some businesses on their 2011 return. For the year, the credit applies to people hired after November 21 through December 31, allowing employers to reduce their tax liability by \$9,600 for hiring a veteran. For 2012, the tax credit drops to \$6,000 per veteran hired through December 31, 2012.

A big item impacting several of Christian's clients is expensing depreciable assets. Under the Small Business Jobs Act of 2010, businesses that bought new equipment are able to write off 100 percent of the cost as bonus depreciation in the year purchased. In 2012, the benefit drops down to 50 percent. Special limitations apply in the case of buying vehicles, Christian said.

In addition, the recent clarification of U.S. Treasury regulations has made it easier for businesses to expense repairs and maintenance of equipment or buildings in the same year incurred. "It's going to serve companies well to take a very hard look at the law," Christian said.

For profitable businesses that purchased equipment in 2011, Section 179 of the federal tax code expensing provisions allows up to \$500,000 to be expensed for new or used equipment in 2011. The \$500,000 is reduced dollar for dollar for total purchases exceed-

ing \$2 million. This year, the expense now caps at \$125,000, which is reduced dollar for dollar if purchases exceed \$500,000.

Christian said he expects to see a lot of foreign asset reporting on 2011 returns. As a result of international banking changes, particularly with the previously private Swiss banking system, reporting regulations have been stepped up for foreign assets. Thus, U.S. taxpayers with foreign accounts or signature rights to such accounts must complete the IRS Form 8938. The minimum penalty for not reporting foreign assets is \$10,000.

Overall, Christian said businesses are expected to have a better tax year in 2012. "Coming off a tough economy, challenging federal, state and local deficits and elimination of redevelopment agencies in California, these 2012 federal and California tax breaks should be great news for those businesses that have turned the corner and are generating profits — and creating new jobs," he said. ■

Banking Executives Take A Look At 2012

By TIFFANY RIDER
Senior Writer

Bankers are predicting moderate growth and continued economic recovery in the New Year, an assumption supported by the recent economic outlook released by the American Bankers Association (ABA).

Eleven chief economists from some of the largest banks around the country are on the ABA Economic Advisory Committee, which released expectations of moderate growth in 2012 coupled by low inflation and more jobs. Despite these expectations, the committee highlighted the risks of the European debt crisis and challenges with U.S. fiscal policy as having a potentially negative influence on the industry this year.

However, overall economic growth is to be supported by low interest rates and stronger consumer and business credit. According to the ABA outlook report, "With moderate economic growth and business investments in productive capacity, the committee predicts core inflation — excluding energy and food — will remain below 2 percent through 2012, just as it did last year. Absent inflationary pressures, the committee expects the [Federal Reserve] to maintain the federal funds rate target at its current level throughout the year. However, spikes in energy prices remain a risk to the committee's inflation forecast.

The following are a collection of perspectives, from economists and executives from banks serving the Greater Long Beach market area, on the banking industry outlook for 2012.

Michele McCutcheon

Vice President and Area Manager
First Bank Long Beach



It's no secret that the banking industry, like other sectors, have faced some challenging times in recent years.

As a result, bank leaders have been looking for ways to reinvent their financial institutions to accommodate a changing consumer landscape while still satisfying