

Madrid, Istanbul Show London Economic Pain Won't Last (Update2)

July 8 (Bloomberg) -- When it comes to the economic impact of yesterday's terrorist bombings, history is on London's side.

In the three market days after bombs exploded on commuter trains in Madrid on March 11, 2004, killing 191 people, the benchmark IBEX 35 stock index fell 7 percent.

The Madrid market is now up 25 percent from that low. In the year after the attacks, Spanish economic growth rose to the fastest pace in four years. Tourism returned to normal within a month and visitor arrivals rose over the course of the year.

Terrorist attacks in Istanbul in November 2003 also failed to scare away tourists or dent the growth of the Turkish economy, which expanded 8.9 percent in 2004.

The world's economy, tourism and financial markets will show similar resilience following yesterday's London bombings, which killed at least 50 people and injured more than 700.

"Any economic effect will be relatively limited," said Aline Schuiling, an economist at Fortis Bank in Amsterdam. "There usually is an immediate reaction on the financial markets, as we saw today. But the attacks in Madrid didn't have any long-term effect."

European stocks rebounded today. The U.K.'s FTSE 100 Index, which lost 1.4 percent yesterday, rose by the same percentage today to close at 5,232.20. The Dow Jones Stoxx 600 Index also gained 1.4 percent to 278.44. Yesterday, it fell 1.8 percent, its largest drop in almost a year.

In New York, the Standard & Poor's 500 Index, which rose 0.25 percent yesterday, was up another 0.6 percent to 1,205.56 at 11:40 a.m. New York time.

Spanish Expansion

The U.K. economy was already showing signs of slowing before the attacks. Its 0.4 percent growth rate lagged the euro region for the first time since 2001 in the first quarter.

In Spain, the economy expanded 2.8 percent in the first quarter of this year from the same quarter a year ago, its fastest rate since 2001. The number of tourists visiting Madrid rose 11 percent last year, better than the 3.4 percent growth nationwide, according to Exceltur, a trade group.

"The world has learned to accept that these things happen," said Didier Debrosse, who has been named president of Heineken Western Europe in Paris. "Consumers have learned to live in a climate of insecurity."

Much still depends on whether there are further attacks, said Anthony Chan, managing director of JPMorgan Asset Management in Columbus, Ohio.

'The Pessimistic Side'

"The market is going to be looking and focusing on any clues that would give the market any visibility as to whether or not this is a one-time event, or is this going to be the beginning of a series of attacks," he said. "We haven't had much in the way of bombings since Madrid. But the pessimistic side says it's possible they are regrouping."

Initial investor concern that Turkey's tourism industry would be hurt by the November 2003 suicide bombs in Istanbul, which killed more than 60 people, proved unfounded.

Turkey attracted 25 percent more visitors in 2004 than the previous year, and revenue from tourism jumped 20 percent to \$15.9 billion, according to government statistics. The Turkish economy expanded 8.9 percent last year. The ISE National 100 stock index is up 88 percent since the attacks.

Crude-oil prices dropped almost 8 percent in the two hours after the U.K. explosions on concern that travel would slow, easing demand for fuels. Prices then rebounded. Today in New York, crude oil for August delivery was up 82 cents, or 1.4 percent, at \$61.55 a barrel, 45 cents more than before the attacks.

Rising, Then Falling

Oil prices jumped more than \$1 in the days after the Sept. 11, 2001, attacks on New York and Washington and then fell 40 percent through the end of the year as business and personal travel slowed. Prices rose almost 2 percent after the terrorist attacks in Madrid.

During terrorist attacks ``you're going to see times of extreme volatility," said Steve Lambert, a senior broker with BNP Paribas in Dublin. ``I don't think it changes the fundamentals one iota."

With the U.S. economy already in recession when the terrorists struck on Sept. 11, 2001, economists erased their predictions for growth in the fourth quarter of 2001 and said the economy would shrink at a 1.3 percent rate, according to the October 2001 Blue Chip survey.

Instead, the economy expanded at an annual rate of 1.6 percent in October through December. The recession ended in November 2001 and the economy accelerated 1.9 percent in 2002.

Stocks

After stock-market trading was suspended until Sept. 17, the Standard & Poor's 500 Index fell from 1038.77 to 965.80 on Sept. 21. It then began climbing and reached 1172.51 on Jan. 4 2002. Still, it resumed its decline, falling as low as 797.70 on July 23. A year after the attacks the index was at 909.45; it has averaged 1187.15 this year.

On Sept. 17 the Federal Reserve held a rare meeting outside its normal schedule and lowered its overnight bank lending rate half a percentage point to 3 percent, then its lowest since February 1994. The central bank cut interest rates a further three times that year to 1.75 percent and left it there until November 2002.

No terrorist attack has been of the scale of the Sept. 11 aircraft hijackings that destroyed New York's World Trade Center, damaged the Pentagon and killed 2,749 people.

``It was the first attack on America in 60 years and the human, material and symbolic damage was much higher," said Jean- Pierre Petit, chief economist at BNP Exane Paribas in Paris. ``It's just not a surprise any more. British authorities have been warning for a long time that they are vulnerable, especially because they are engaged in the Iraq war."

Deadliest in Decades

The London attacks, the city's deadliest since World War II, shut public transportation across the capital. A group purporting to be the Islamic terrorist organization al-Qaeda posted a statement on a Web site claiming responsibility for the attacks. Prime Minister Tony Blair flew back from Gleneagles, Scotland, where he was hosting a summit of the Group of Eight industrialized nations.

Airline stock declines may last longer than for other industries, said Jon Ash, president of InterVistas-ga2, a Washington-based airline consulting group. He cited flooding in the U.S. southeast from Tropical Storm Cindy and higher oil prices as other issues confronting the airlines.

When It Happens, It Happens'

Hans Brinks, a Dutchman traveling to Spain from Italy, said in an interview at Milan's Linate airport that he's not concerned about flying.

``When it happens it happens, and it can happen on the road as well," said Brinks, who said he works for a U.S. technology company he did not name. ``I expect something may happen in the Netherlands as well because we had troops in Iraq and they found some terrorist groups in the Netherlands."

``Life must go on," Valentino Fashion Group SpA Managing Director Michele Norsa said in a telephone interview from Paris, where he is conducting the roadshow for Marzotto SpA's spinoff of apparel assets into the new Valentino Fashion Group. ``Investors and consumers know they have to learn how to live with tragic events, and this is a sign of strength."