

# 10<sup>YEARS</sup> BUSINESS REPORT

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Economic effects of similar attacks in Western capitals have been short-lived

History is on markets' side as they take stock of terror  
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When it comes to the economic impact of Thursday's blasts, history is on London's side. In the three market days after bombs killed 191 people on commuter trains in Madrid on March 11 2004, Spain's benchmark Ibex 35 stock index fell 7 percent.

Madrid's 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 of the attacks and visitor arrivals rose over the course of the year.

Terror attacks in Istanbul in November 2003 also failed to scare away tourists or dent Turkey's economy, which expanded 8.9 percent in 2004.

**Investors and consumers know they have to learn to live with tragic events**

The world's economy, tourism and financial markets will show similar resilience following the bombs on London buses and subways that killed more than 50 people and injured 700.

"Any economic effect will be relatively limited," said Aline Schuiling, an economist at Fortis Bank in Amsterdam.

"There is usually an immediate reaction on the financial markets, which we saw, but the Madrid attacks didn't have any long-term effect."

European stocks had their biggest losses in almost a year on Thursday. The pan-European Dow Jones Stoxx 600 index fell 1.8 percent and the UK's FTSE 100 index lost 1.4 percent. Travel-related stocks, including British Airways, and insurers, such as Paris-based Scor, paced the decline.

The UK economy showed signs of slowing before the attacks. In the first quarter, Britain's 0.4 percent growth rate lagged the euro zone for the first time since 2001.

The Spanish economy expanded 2.8 percent in the first quarter from the same quarter a year ago, its fastest rate since 2001.

The number of tourists visiting Madrid rose 11 percent last year, beating Spain's overall 3.4 percent growth, according to trade group Exceltur.

"The world has learned to accept that these things happen," said Didier Debrosse, the new president of Heineken Western Europe.

"Consumers have learned to live in a climate of insecurity."

Much still depended on whether there were further attacks, said Anthony Chan, the managing director of JPMorgan Asset Management.

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 year before, and tourism revenue jumped 20 percent to \$15.9 billion (R109 billion), according to government statistics. The ISE National 100 stock index is up 88 percent since the attacks.

Crude oil prices fell almost 8 percent in the two hours after the UK explosions on concern that travel would slow, easing fuel demand. Prices then rebounded to end the day 1.7 percent lower at \$60.25 a barrel in New York.

In the days after the September 11 2001 attacks in the US, oil prices jumped more than \$1 and then fell 40 percent by the end of the year as business and personal travel slowed. Crude rose almost 2 percent after the attacks in Madrid.

Steve Lambert, a senior broker with BNP Paribas in Dublin, said: "You're going to see times of extreme volatility" during terror attacks.

"I don't think it changes the fundamentals one iota," he said.

With the US economy already in recession in September 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.

Instead, the US economy expanded at an annual rate of 1.6 percent in the three months to December. The recession ended in November 2001 and the economy grew 1.9 percent in 2002.

After New York Stock Exchange trading was suspended until September 17 2001, the Standard & Poor's (S&P) 500 index fell from 1038.77 points to 965.80 points on September 21. It began climbing and reached 1172.51 on January 4 2002 before resuming 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 September 17 the US Federal Reserve held a rare meeting outside its normal schedule and lowered its overnight bank lending rate by half a percentage point to 3 percent, then its lowest rate since February 1994.

The central bank cut interest rates to 1.75 percent by year-end and left them there until November 2002.

No attack has been of the scale of the aircraft hijackings that destroyed the World Trade Center, damaged the Pentagon and killed 2 900 people.

Jean-Pierre Petit, chief economist at BNP Exane Paribas in Paris, said: "It was the first attack on America in 60 years and the human, material and symbolic damage was much higher.

"It's just not a surprise anymore," he added. "British authorities have been warning for a long time that they are vulnerable, especially because they are engaged in the Iraq war."

Thursday's attacks, London's deadliest since World War 2, shut public transport across the capital.

UK Prime Minister Tony Blair flew back from Gleneagles, Scotland, where he was hosting a summit of the Group of Eight industrialised nations.

Tobias Levkovich, a portfolio strategist at Citigroup Smith Barney in New York, said US markets were likely to shrug off the London bombs.

"Our analysis suggests that the US stock market remains reactive to events within its borders, and is less sensitive to overseas events," Levkovich said in a note to clients.

"The impact of US events on US markets has generally been short-lived, even in the case of 9/11."

Jon Ash, the president of InterVistas-ga2, a Washington-based airline consulting group, said airline stock declines might last longer than for other industries.

He cited flooding in the US southeast from Tropical Storm Cindy and higher oil prices as other issues confronting the airlines.

Typifying the response from business travellers, Hans Brinks, a Dutchman flying to Spain from Italy, said he was not concerned about flying.

"When it happens it happens, and it can happen on the road as well.

"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," said Brinks, who works for a US technology company"

Michele Norsa, the managing director of Valentino Fashion Group, said: "Life must go on."

Speaking from Paris, where he was conducting a road show for Marzotto's spin-off of apparel assets into Valentino, he said: "Investors and consumers know they have to learn how to live with tragic events, and this is a sign of strength." - Bloomberg