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Economic pain: History is on London's side

(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 of the bombings 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 the bombs on London buses and subways that killed at least 37 people and injured 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 had their biggest losses in almost a year yesterday as the Dow Jones Stoxx 600 Index fell 1.8 percent to 274.67. The U.K.'s FTSE 100 Index lost 1.4 percent. Travel-related stocks, including London-based British Airways Plc, and insurers such as Paris-based Scor SA paced the decline. The UK 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 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, and were down $1.03, or 1.7 percent, to $60.25 a barrel in New York.

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," he said.

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.

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.