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History is on London's side to live through impact of blasts

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PARIS: When it comes to the economic impact of Thursday'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%. The Madrid market is now up 25% from that low.

In the year after the attacks, Spanish economic growth rose to the fastest pace in four years. 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% in 2004.

The world's economy, tourism and financial markets will show similar resilience following 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."

The UK economy was already showing signs of slowing before the attacks. Its 0.4% growth rate lagged the euro region for the first time since 2001 in the first quarter. In Spain, the economy expanded 2.8% 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% last year, better than the 3.4% 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% more visitors in 2004 than the previous year, and revenue from tourism jumped 20% to \$15.9bn, according to government statistics.

The Turkish economy expanded 8.9% last year. The ISE National 100 stock index is up 88% since the attacks.

Crude-oil prices dropped almost 8% in the two hours after the UK explosions on concern that travel would slow, easing demand for fuels. Prices then rebounded.

Oil prices jumped more than \$1 in the days after the September 11, 2001, attacks on New York and Washington and then fell 40% through the end of the year as business and personal travel slowed.

Prices rose almost 2% 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 US economy already in recession when the terrorists struck on September 11, 2001, economists erased their predictions for growth in the fourth quarter of 2001 and said the economy would shrink at a 1.3% rate, according to the October 2001 Blue Chip survey.

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

After stock-market trading was suspended until September 17, the Standard & Poor's 500

Index fell from 1038.77 to 965.80 on September 21. It then began climbing and reached 1172.51 on 4 January 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 September 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%, then its lowest since February 1994. The central bank cut interest rates a further three times that year to 1.75% and left it there until November 2002.

No terrorist attack has been of the scale of the September 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."

"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 spin-off 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." – Bloomberg