



## UK Stock Prices up 223% since 1987 Stockmarket Crash

19<sup>th</sup> October 2007 marks the 20<sup>th</sup> anniversary of 'Black Monday', the day world stockmarkets crashed. In a single day, the FTSE 100 share Index plummeted by 11%, wiping billion of pounds from the London stockmarket. Halifax Financial Services examines how the stockmarkets around the world have performed since Black Monday.

New research from Halifax Financial Services shows that UK stock prices are, on average, currently more than three times (223%) higher than on Black Monday (19<sup>th</sup> October 1987). On Black Monday the FTSE Index fell from 2302 to 2052 – a fall of 11%.

### UK stockmarket took two years to recover from 1987 crash

Global stockmarkets differed in recovery time following the 1987 crash. The FTSE 100 Share Index took just under two years to recover their pre-Black Monday levels whilst the Dow Jones Industrial Average took just over one year. The Hong Kong market took 3.5 years to recover to its pre Black Monday level and the Australian stockmarket took just over six years.

### The global stockmarket performed very well in the run-up to Black Monday:

- The FTSE 100 rose by 37% in 1987 up until Black Monday. This followed a 19% UK stock price increase in 1986.
- The Dow Jones Industrial Average rose by 19% in 1987 up to Black Monday, preceded by a 23% increase in 1986.
- The Hang Seng share index in Hong Kong experienced the strongest gains pre-Black Monday, rising by 47% in 1987 up until Oct 19<sup>th</sup>, following a similar rate of growth in 1986.

### On Black Monday, stockmarkets across the world collapsed:

- The Dow Jones Industrial Average dropped by 23% on October 19<sup>th</sup> and led global stockmarkets lower.
- The FTSE 100 Share Index experienced a one day drop of 11% on October 19<sup>th</sup>, followed by a 12% fall the next day (reflecting the fall in the US market after the UK stockmarket closed on October 19<sup>th</sup>).
- The Australian stockmarket suffered more with the All Ordinaries Index down 25% on October 20<sup>th</sup> in reaction to the falls on Wall Street.

## **UK took longer to recover from dotcom fall-out**

Stockmarkets hit new highs during the dotcom boom with the FTSE 100 Index rising by 114% between 1995 and 2000. Much of this rise, however, was lost over the following two years as the dotcom bubble burst. Following the peak in the dotcom boom in March 2000 and the subsequent market falls, it took the FTSE 100 until May 2007 (seven years) to recover to its March 2000 position. This was longer than the UK stockmarket took to recover from Black Monday.

## **Recent market volatility modest compared to 1987 crash**

The UK stockmarket has performed much better during the recent financial market crisis than in 1987. The UK stockmarket fell by 31% peak to trough in the aftermath of Black Monday<sup>1</sup>, compared to an increase of 7% so far in 2007. The largest single daily fall in the FTSE 100 during 1987 was a 12% drop on 20th Oct 1987, nearly three times greater than the biggest daily price fall of 4.1% for the UK stockmarket during 2007, on 16<sup>th</sup> August 2007.

## **Martin Ellis, chief economist at Halifax Financial Services, said:**

"While the 1987 stockmarket crash was clearly one of the major events for financial markets and economies during the twentieth century, the strong long term performance of the UK stockmarket since then should not be surprising. The UK economy is in the midst of the longest unbroken period of economic growth on record and London's position as one of the world's major financial centres also makes it an important destination for global capital flows."

## **KEY FINDINGS**

- **During October 1987 global stockmarkets experienced significant falls.** The FTSE 100 Share Index fell by 26% in October 1987, while the Dow Jones declined by 24%. The Hong Kong stockmarket suffered more, falling by 43%.
- **The surge in panic selling on Black Monday led to a daily increase in the turnover of stock on the FTSE 100 of 2,248%**, resulting in restricted trading because the computers used to execute the orders could not keep up.
- **The day after Black Monday saw the largest daily fall in UK stockmarket capitalisation (11.5%) over the past 20 years.** The second largest decline was on Black Monday (10.7%).
- **The FTSE 100 index took just under two years to recover its pre-Black Monday position.** The Nikkei 255 share index at just six months was the quickest to recover out of the major global stockmarkets. In contrast, the Australian ASX Index took just over six years to fully recover from Black Monday.
- **Other major stockmarkets have performed more strongly than London since the 1987 stockmarket crash**, partially reflecting steeper falls in these markets at the time, with the Dow Jones Industrial Average up 710% since October 1987 and the Hang Seng Index rising by 750%.
- **In total return terms, the FTSE100 has risen by 584% since October 19<sup>th</sup> 1987.** The US Dow Jones Industrial Average has risen by 1,232% on this basis.
- **UK interest rates were cut in the months following the stockmarket crash to a low of 8.5%** by the end of the 1987 from 10% at the time of the Black Monday falls.
- **So far in 2007, the FTSE 100 Index has risen by 7%.** The Dow Jones and the Hang Seng have increased by 4% and 18% respectively. The Dax 30 is up 4%.

<sup>1</sup>From 16th October 1987 to 1<sup>st</sup> December 1987.

**Table1: Global stockmarket movements on Black Monday.**

Market	Pre Black Monday	Black Monday	Daily % movement
FTSE 100	2302	2052	-11%
Dow Jones	2247	1739	-23%
Hang Seng	3783	3362	-11%
Nikkei 225	25747	21910	-15%
DAX 30	1459	1322	-9%
ASX	2065	1549	-25%

**Table 2: Stockmarket recovery time.**

Share Index	Black Monday (Years)	Dotcom (Years)
FTSE 100	1.8	7.3
Dow Jones	1.3	0.5
Hang Seng	3.5	6.6
Nikkei 225	0.5	n/a
DAX 30	1.7	7.3
ASX	6.2	0.4

**Table 3: Global stockmarket movements: 1987-2007.**

Market	1987*	2007**	20 Year% movement
FTSE 100	2052	6633	223%
Dow Jones	1739	14079	710%
Hang Seng	3362	28569	750%
Nikkei 225	21910	17178	-22%
DAX 30	1322	7987	504%
ASX	2065	6745	227%

\*1987 = 19/10/1987 - Black Monday. \*\*2007 = 10/10/2007

**Table 4: 2007 to date Global stockmarket movements.**

Market	Jan-07	Oct-07	% Movement
FTSE 100	6221	6633	7%
Dow Jones	12463	14079	13%
Hang Seng	19965	28569	43%
Nikkei 225	17226	17178	0%
DAX 30	6597	7987	21%
ASX	5644	6745	19%

Data sources from Datastream. Price indices rather than total return indices have been used for this analysis to obtain a complete data set.

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