

# Greensboro News & Record

## Stocks slip as rising oil costs fuel recession fears

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The crisis in the Persian Gulf sent more shock waves through the U.S. financial markets Monday as the stock market tumbled amid concerns that rising oil prices could cause a recession.

The Dow Jones average of 30 blue chip stocks lost 93.31 points, or 3.32 percent, closing at 2,716.34 as oil prices reached their highest level in five years. The Dow index plunged about 105 points in the first 45 minutes of

trading, then recovered slightly. It was the Dow's largest loss since a 190.58 point dip Oct. 13, 1989.

Money flowed instead into Treasury bills, among the most secure short-term investments available.

"We have a selling panic going on in the stock and bond markets and a flight to quality to T bills," said Edward Yardeni, chief economist for Prudential-Bache Securities. "When investors are nervous they tend to pull back."

In oil-dependent Japan, the Nikkei Stock

Average of 225 selected issues closed down 3.1 percent. In Britain, the Financial Times-Stock Exchange 100-share index dropped 2.9 percent.

The disruption of oil from the Middle East has contributed to the last two major U.S. recessions, which started in 1973 and 1979. Economists fear that is likely to happen again because of Iraq's invasion of Kuwait.

"I think you'd have to say the probability

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## Oil From A1

has shifted over 50 percent that within the next two quarters we will be in what is called a recession," said David Orr, economist with First Union National Bank in Charlotte. "But I don't think that'll make a whole lot of difference to the average person's daily life."

The U.S. economy has barely grown for several months, Orr said. If it should drop slightly to a negative rate, "the difference ... will be important to statisticians, but it's not a cataclysm."

In the most recent recessions, oil prices virtually tripled in a short period.

But this time, economists don't expect that kind of increase.

Orr thinks that oil might rise to \$30 a barrel, up by 50 percent from just before Iraq's invasion.

On Monday the September contract for West Texas Intermediate soared \$3.56 to \$28.05 a barrel at the New York Mercantile Exchange. It was the highest level for the benchmark grade of U.S. crude since August 1985.

"We haven't seen a tripling of oil prices yet," said Campbell R. Harvey, associate professor of economics at Duke University's Fuqua School of Business.

"But the one thing you can't factor in to any economic model is total surprise," he said. If Iraq should also invade Saudi Arabia — as some observers have warned — the dis-

work "could send the economy into a tailspin."

Given the tense markets, financial planners urge investors against acting in haste.

"What the investor should do depends on what the purpose of their investment is," said Steve Morton, a financial planner for The Financial Group Companies in Greensboro. "If this is my retirement money that's going to come out in 20 years, I would just let it sit there and wait."

On the flip side, Morton said investors who have money set aside to buy a house this fall should be more protective of their money. Government-backed treasury bills and money market accounts "would be a good place to hide," Morton said.

Market observers said that if the United States and its allies move aggressively to end the conflict in the Middle East, the economic impact may be minimal. But over time the crisis could erode business confidence, resulting in job layoffs or lower production, the ingredients for a recession.

"We're in the hands of a very, very unpredictable ruthless madman running Iraq, so most people's investment portfolios are being held hostage to what (Iraqi President) Saddam Hussein does next," Yardeni said.

Staff writer Byron McCauley and The Associated Press contributed to