

# Wide worries over oil prices

## Analysts say burden could spur recession

By Robert Weisman

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The price of crude oil is poised to cross the \$100-a-barrel threshold, raising the prospect that the burden on consumers and businesses could be the final straw to tip the US economy into a recession.



How the oil market got to this historic milestone - with prices nearly doubling from their 2007 low of \$50.48 and more than tripling since 2003 - is a twisting tale of hurricanes, speculators, refinery constraints, and geopolitical jitters. Many fear the fallout, long cushioned by robust growth, soon may be felt in everything from rising gasoline and heating bills to higher air fares to reduced corporate earnings.

"This is definitely a major threat to the economy," said Brian Bethune, economist for Global Insight, a research firm in Waltham, who warned that sustained per-barrel oil prices in

triple digits could shave as much as 0.5 percent off an already slowing gross domestic product next year. "We're getting down to a critical stall speed."

That could mean consumers scaling back on holiday shopping to offset soaring prices at the gas pumps, or businesses hiring fewer workers and passing higher energy prices on to customers.

Bad weather, which drives up energy demands, or international tensions that

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put oil supplies in jeopardy could send prices even higher - and make a downturn even more likely, said Jim Burkhard, managing director of Cambridge Energy Research Associates. "If we get a cold winter, we could see \$110 a barrel," Burkhard suggested. "In our view, if prices stayed at that level for six months to a year, that would contribute to a significant economic slowdown."

Oil closed at \$96.37 a barrel on the New York Mercantile Exchange yesterday, down 33 cents, after climbing to an all-time high of \$98.62 earlier in the day. The mixed reaction from investors followed release of a government report that showed oil inventories shrinking, though less than expected. Analysts said it was only a matter of time before the crude price hits \$100 a barrel.

"This ship will right itself at some point," said Sarah Emerson, managing director at Wakefield consulting firm Energy Security Analysis, who said the severity of the economic impact will depend on the duration of the run-up. "But in the meantime we'll be dealing with very high prices."

Gasoline prices, which have lagged crude oil increases in recent weeks, are expected to move up as the holiday travel season approaches. And increases in home heating prices are likely to disproportionately hurt Northeastern states like Massachusetts, which burn more oil and natural gas than other parts of the country.

The state's commercial sector may be less vulnerable than elsewhere, however, because of its concentration of energy-efficient financial services and other white-collar industries. "Massachusetts is frugal in terms of the energy it consumes," said Phil Guidice, commissioner of the state Division of Energy Resources. "We're not a heavy industrial economy anymore." Guidice said high oil prices could have the beneficial long-term effect of spurring conservation and more investment in alternative energies, like solar, wind, and biomass.

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