# Markets and Dollar Sink as Slowdown Worry Increases





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Stock markets plummeted and the dollar sank to a record low against the euro yesterday as investors worldwide grew skittish over rising oil prices and the prospect of a substantial economic slowdown in the United States.

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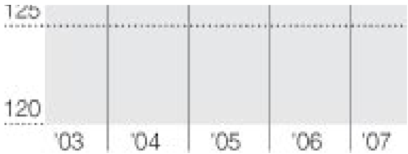
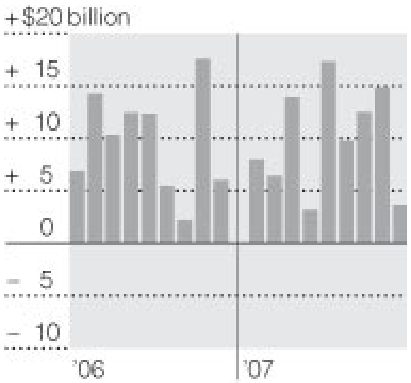



Source: Bureau of Labor Statistics

### Consumer Borrowing

Net change in total consumer debt, excluding mortgages, seasonally adjusted.

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| **Annual pace of change** | Sept. | **+1.8%** |
| | Aug. | **+7.5** |
| | July | **+6.4** |

Source: Federal Reserve Board

THE NEW YORK TIMES

The Dow Jones industrial average fell 360 points and the broader stock market dropped nearly 3 percent, driven down by fear that the troubles in housing are likely to continue well into next year, contributing to further losses in credit markets and spreading pain to the rest of the economy. After a relatively strong summer, consumer spending is expected to tighten and business profits slow in the months ahead, analysts said.

"We are experiencing among our clients an awakening that the United States is in big trouble," said Erik Nielsen, chief Europe economist at Goldman Sachs.

The rise in oil prices, which briefly traded yesterday above $98 a barrel before settling at $96.37, now appear to be pushing up the cost of gasoline, heating oil and jet fuel as well. That only intensified concern that American consumers may no longer be able to sustain their spending on other goods and services, particularly the large numbers of gas-guzzling vehicles still being turned out by the Detroit automakers.

The most immediate trigger for the sell-off in the dollar, traders said, was a jarring signal that suggested China might shift some of its enormous hoard of foreign currency reserves — worth more than $1.4 trillion, primarily in dollars and dollar-denominated assets — into other currencies to get a better return on its money.

"We will favor stronger currencies over weaker ones, and will readjust accordingly," Cheng Siwei, vice chairman of the Standing Committee of the National People's Congress told a conference in Beijing on Wednesday. A Chinese central bank vice director, Xu Jian, said the dollar was “losing its status as the world currency,” according to Bloomberg News.

Mr. Cheng later told reporters he was not saying China would buy more euros and dump dollars. But as markets opened across Europe, those words echoed as an invitation to sell the American currency.

The dollar fell to its lowest level against the Canadian dollar since 1950, the British pound since 1981, and the Swiss franc since 1995. The euro rose to a new record, $1.4729, before retreating.

While the reaction to the Chinese statements appeared to have been overblown, analysts said the larger forces assailing the dollar and the stock market were more deep-seated: uncertainty about the magnitude of the mortgage-related credit crisis, and the growing sense that, sooner or later, the unraveling of the American housing market must color the larger economy.

Recent weeks have featured a string of unpleasant reckonings for major Wall Street banks, with several slashing billions of dollars from balance sheets to account for losses in the mortgage market. Yet investors fret that there is more pain to come, with no way to know how much or where, given the spider’s web of financial deals that propelled the housing boom.

“What it all comes down to beneath the surface is the perception of credit-related problems, and the perception that this is spreading in ways that cannot be anticipated,” said Alan Ruskin, chief international strategist at RBS Greenwich Capital.

Though the losses from the subprime mortgage crisis are frequently estimated at $200 billion, only about half of this money has been accounted for, Mr. Ruskin said, with the markets forced to guess where the next batch of bad holdings will emerge.

“A lot of people do the math and there still seems to be a big hole there,” he said.

Amid the carnage, though, there were still several signs that the economy remains healthy. Productivity — a measure of how much the country produces for each worker — expanded more than expected in the summer, the Labor Department said, suggesting that the economy still has the ability to grow without stoking too much inflation.

But stocks dropped from the opening bell. The Dow closed down 2.64 percent, at 13,300.02. The Standard & Poor’s 500-stock index tumbled 44.65 points, or 2.9 percent, to 1,475.62. The Nasdaq composite index fell 76.42 points, or 2.7 percent, to 2,748.76.


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