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MONEY

Why the Dow fell and oil prices surged Monday

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The Dow Jones Industrial Average fell more than 100 points Monday after an attack on Saudi Arabian oil facilities disrupted more than 5% of the world's daily crude supplies and raised the prospect of higher gasoline prices that could add a speed bump to a vulnerable U.S. economy.

Gasoline prices are likely to rise 10 to 25 cents a gallon as early as this week after strikes on two major Saudi oil facilities over the weekend caused the largest disruption of the world's daily oil supplies, analysts say.

A 15-cent rise would leave average pump prices at $2.71 a gallon, up from $2.56 Monday, according to AAA.

U.S. crude prices rose nearly 15% Monday in response to the attacks. Wholesale gasoline prices increased about 15 cents a gallon, says Tom Kloza, chief global analyst for the Oil Price Information Service.

The Dow fell 143 points, less than 1%, to 27,077 on Monday after the attack raised the risk of more disruptions to oil supply when the global economy is vulnerable. The Dow came off eight straight days, and three consecutive weeks, of gains.

Gas prices may stay high

Although Saudi Arabia said it would quickly replenish the lost oil from its stockpiles, Kloza says, "I think that everybody needs to be very skeptical. It's really an uncertain question."

Phil Flynn, senior market analyst for the PRICE Futures Group, says Saudi Arabia will probably be hard-pressed to replace the disrupted oil for more than several weeks. The United States indicated it's prepared to tap emergency reserves if necessary.

Even if Saudi Arabia repairs the damaged facilities within a few weeks, fears of a Saudi Arabian counterattack on Iranian oil supplies could keep oil and gas prices elevated through the fall, Kloza says.

A Yemeni rebel group claimed responsibility for the attacks, but the U.S. government suggested they originated in Iran.

"There's potential for higher prices if there's reprisal," Kloza says.

US production eases the pain

The good news is any price increase is likely to be somewhat limited because refineries have switched from summer to winter blends of gasoline, which have less rigorous environmental standards and are less expensive to produce, Flynn says.

Also cushioning the blow of any price hike is that oil prices have simply rebounded to July levels. Similarly, a 15-cent rise in pump prices would leave them around their midsummer peak.

The USA is the world's largest oil producer at about 12.4 million barrels a day, Kloza says. The country, which imported most of the oil it consumed in the mid-2000s, now imports less than half, making it less dependent on global price swings.

Economic impact

The U.S. economy has slowed but performed solidly as a result of steady consumer spending despite the trade war with China and a slowing global economy. Those developments have hurt business investment and raised the risk of recession. A persistent spike in gasoline prices could partly dim the picture of a healthy American consumer, who would have less cash for discretionary purchases.

Because oil production makes up a bigger part of the economy, a price increase would spur more crude production, along with related factory output and business investment, partly offsetting the dip in consumer spending, says economist Gregory Daco of Oxford Economics.

The bottom-line impact on economic growth is likely to be negligible, at less than a tenth of a percent, unless additional oil supplies are disrupted, pushing up prices further, Daco says.

Energized stocks

Energy stocks rose because of higher crude prices. Marathon Oil went up 12%.

GM strike

General Motors slumped 4.3% after about 46,000 members of the United Auto Workers went on strike. The union and company have been locked in contract talks, and it wasn't clear how long the walkout would last.

Enter the Fed

The Federal Reserve is likely to lower its short-term interest rate by a quarter percentage point Wednesday because of the growing risk of a recession by the end of 2020. The Fed cut the rate in late July for the first time in a decade. Daco says the oil prices are not likely to play a significant role in the Fed's analysis.

Contributing: The Associated Press