

News Release

THE FEDERAL RESERVE BANK *of* KANSAS CITY

1 Memorial Drive • Kansas City, MO 64198 • Phone: 816.881.2683

FOR IMMEDIATE RELEASE
JULY 16, 2010

CONTACT: Tim Todd
816/881-2308
timothy.todd@kc.frb.org

WHAT IS THE EFFECT OF FINANCIAL STRESS ON ECONOMIC ACTIVITY?

High levels of financial stress recently pushed the U.S. economy into its most severe recession since the Great Depression. But despite the apparent risk financial stress poses to the real economy, the relationship between financial stress and economic activity is not well understood.

In the article, “What is the Effect of Financial Stress on Economic Activity?” Troy Davig, assistant vice president and economist, and Craig Hakkio, senior vice president and special advisor on economic policy, both of the Federal Reserve Bank of Kansas City, examine the questions surrounding the impact of financial stress on the economy. The article appears in the second quarter edition of the Bank’s *Economic Review*.

Davig and Hakkio find that over the past two decades, rising financial stress has had a much stronger impact on the real economy when the economy is already in a distressed state. In addition, rising levels of financial stress play a role in tipping a strong economy into a distressed state. As a result, the authors write, policymakers should monitor financial conditions closely, both in good times and bad.

The article is available on the Bank’s website at www.KansasCityFed.org.

####

