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ABSTRACT

We investigate the role of forward-looking financial factors in propagating the Great De- pression. We find that a new hand-collected bank stock index is better at predicting the onset of the Great Depression than the aggregate stock market or failed bank deposits. The bank stock index explains almost one-third of the fluctuations in industrial produc- tion after five years. Analysis disaggregated at each Federal Reserve district shows that bank stocks capture forward-looking information about debt defaults and credit. Our re- sults suggest that future studies of the credit channel during the Great Depression should incorporate bank stocks to better identify the impact of credit crunches on economic activity.