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The High-Yield Spread as a Predictor of Real Economic Activity: Evidence of a Financial Accelerator for the United States

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Abstract

Previous studies find that the interest rate term spread predicts real U.S. economic activity. We show that this relationship breaks down for the 1990s and suggest that its earlier success was due to high and volatile inflation. We find, however, that the high-yield spread (HYS) between “junk bond” and government bond yields predicts real activity during the 1990s – especially high levels of the HYS. We also find that the HYS works through both the demand and the supply side of the economy. We interpret our findings as supportive of a financial accelerator mechanism.

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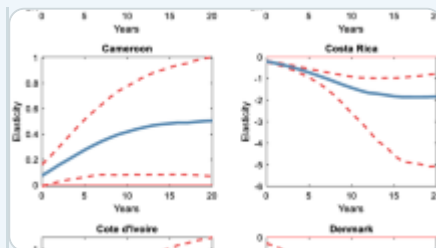
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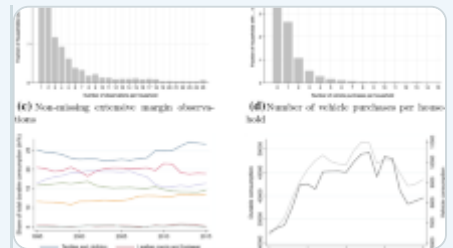
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