DOES THE US EMPLOYMENT REPORT PAINT A POSITIVE PICTURE FOR GOLD?

Monday, April 07, 2014

Perhaps the biggest economic indicator of all is the US Bureau of Labor Statistics' (BLS) Employment Situation Report, better known as the US Jobs Report.

On Friday, the BLS reported net new job creation of +192K, about 3K below what economists had expected and in-line with Wednesday's ADP figure of +191K private sector jobs.

The market initially did not react, staying flat for the first couple of hours of trading. At a little after 11 a.m. ET, the equity markets soured quickly, with precious metals jumping.

Gold finished the day up about 1% (London PM).

Why did precious metals benefit from such an in-line jobs report?

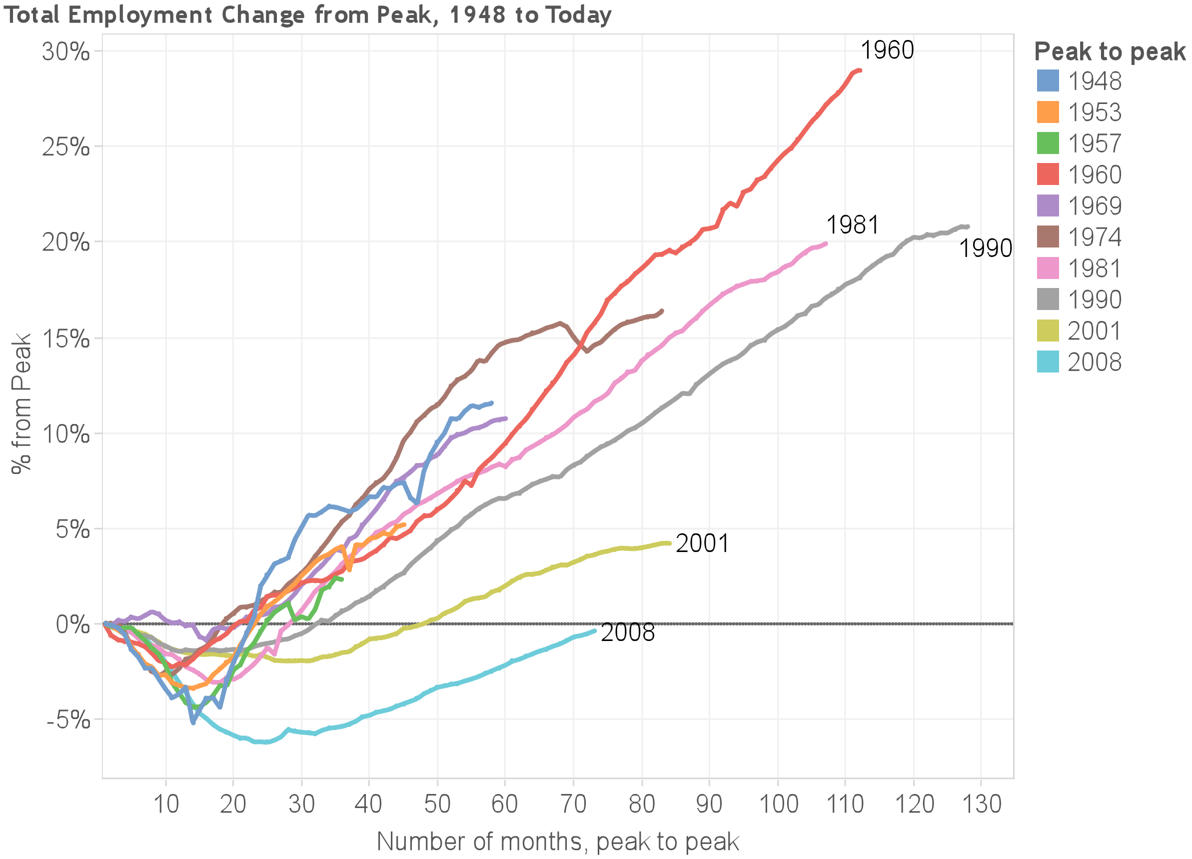
The answer lies in the details.

Here's what US employment has done during each of the past 11 business cycles.

The label for each colored line represents the year in which the peak in employment growth occurred. The horizontal axis is the number of months until another peak is reached. The horizontal axis is the percentage change in employment from the peak year stated.

Overall, the figure depicts the 2008 recession as a severe downturn, with overall growth still below the previous peak in January 2008. In total, the current business cycle has lasted 74 months.

Total Employment Change from Peak, 1948 to Today



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Interestingly, if the current business cycle is akin to the one that started in 2001 and ended in January 2008, then there's only 10 more months until another downturn.

If the current cycle ends up being akin to the 1990 recession/recovery that lasted into 2002, then there's another 54 months until another jobs recession occurs.

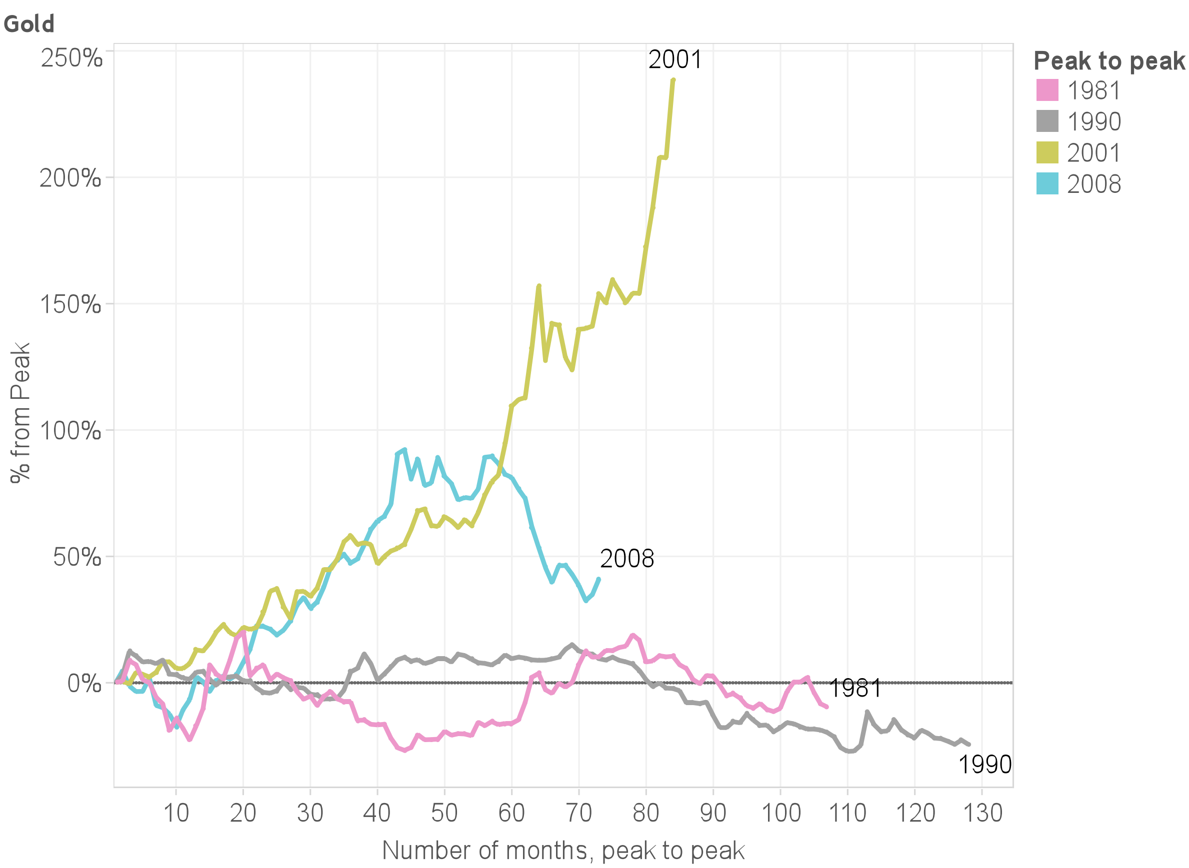
In contrast, if the current cycle ends up being more like the mid-1970s pre-hyperinflation, then there's only 9 months until labor market deterioration.

What does this have to do with precious metals and gold in particular?

Here's what gold has done over the past four US business cycles.

Gold performed the best over the course of the 2001 to 2007 recession/boom cycle, increasing 239% (London PM). The next best recession/boom cycle is the current cycle, with the metal up 41% since January 2008.

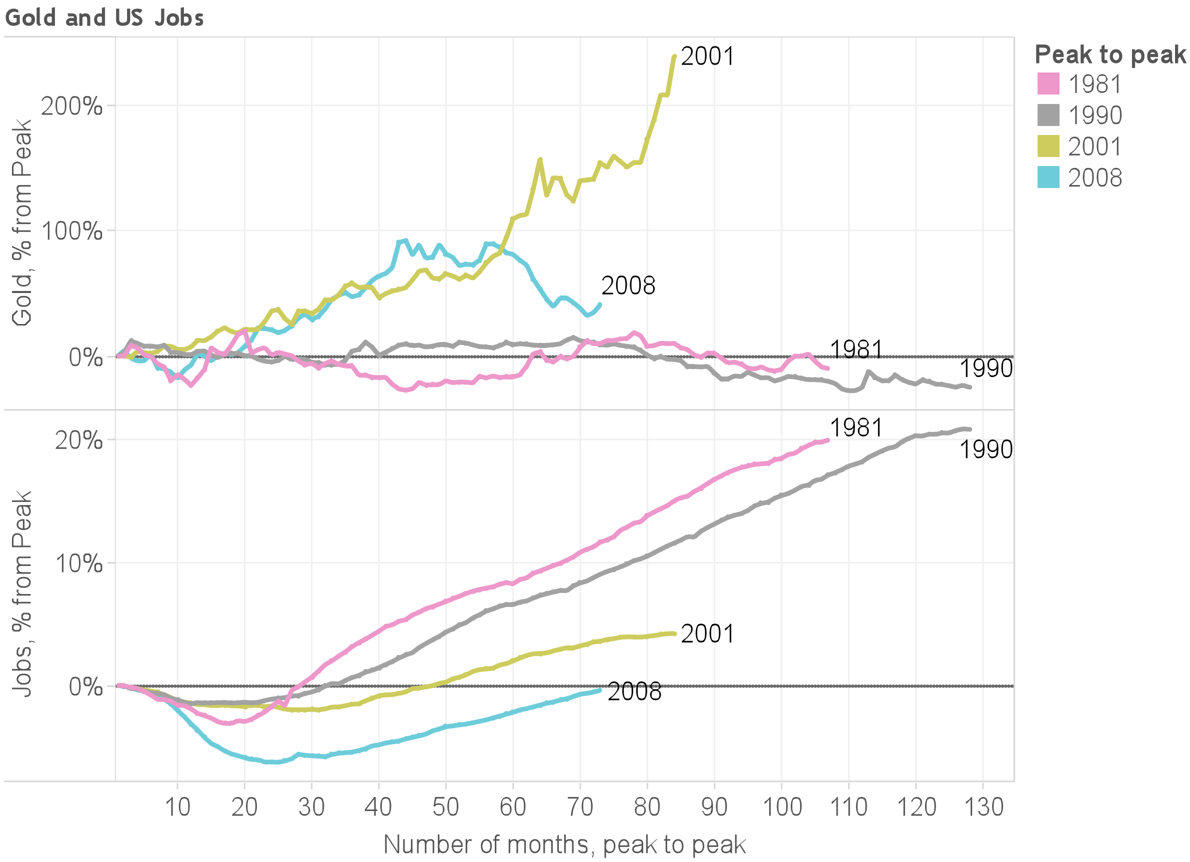
In contrast, the previous two business cycles saw gold decline in value by 10% (1981) and 25% (1990).



What's the connection?

The following diagram shows the two series together.

Essentially, strong US recoveries are generally associated with weaker gold price appreciation, while weak US recoveries mean very strong gold price appreciation.



As of now, the US labor market is the weakest on record in depth and duration, a positive for gold. In addition, with the US Federal Reserve blindly committed to keeping interest rates low and money supply high, the story is only positive for holders of the yellow metal.