

## **Dr. Copper: Looking for Signs of an Economic Recovery**

Today we received a fresh report from the Labor Department on the job market. The news was another sign that we are entering an economic recovery. The good news is that the jobless rate fell sharply to 11.1% from 13.3% in the prior month. The bad news is that the jobless rate remains historically high. For investors looking for signs of whether the economy is on a sustainable path to recovery, examining a broad array of other indicators is prudent.

One obscure indicator is the price of copper. Many market pundits give a playful moniker to copper as "the metal with a PHD in economics." Exactly what does that mean? Historically, the price of copper has been a fairly reliable leading indicator of future economic performance. One of the main reasons for this phenomenon is that copper is widely used in a number of industries such as electronics, automobile manufacturing and construction.

One example of the veracity of Dr. Copper's economic acumen was evident earlier this year. In January, the price of copper hit a 52-week high of nearly \$3 per pound. In the next 2 months, the price plummeted to a four year low, edging close to \$2 per pound. By March, it had become clear that the global economy was heading into a sharp decline due to the fallout from the Covid-19 pandemic.

A more striking example of the copper price foreshadowing economic contraction was the signal given in July 2008 when the price of copper posted a near-record high price of \$4 per pound. Two months later, the financial crisis went into full throttle, which was followed by a sharp recession. Moreover, the price of copper bottomed in late 2008 and launched into a new bull market, even as the economy and the stock market were still in flux.

Since late March, the price of copper has risen steadily and is hitting price levels not seen since January. It is important to note that the rise in stock prices since late March has caught many investors off guard to say the least. But perhaps the rise in the stock market and the rise in the copper price were harbingers of an economic recovery that may be swifter than most economists are forecasting.

One fundamental reason for the recent rise in the price of copper is that inventories of copper held at warehouses in China have approached a 6-year low.

Like most indicators, the price of copper does not have a perfect record but is one of the many indicators that market participants should consider when formulating their outlook for future stock market performance.