The Economics of Love

The Valentine's Day is big business for retailers as people spend much money to express love and affection. Those buying Valentine goodies like followers and chocolate pay higher prices than they normally do for the same products at any other day of the year. Paying higher prices demonstrates the law of supply and demand. On this day, there is a once-a-year surge in demand. Meanwhile, the supply increases as more products enter the market. However, the demand increase outstrips the supply rise, resulting in a dramatic price hike. Depending on budgetary limitations, people pay higher prices to buy Valentine goodies. Otherwise, they are in trouble!

According to the Consumer Intentions & Actions Survey (January 2012), about 60 percent of 9,317 respondents said they celebrate the Valentine’s Day. The most romantic age group is 24 to 35 years as 71 percent said they celebrate the day of love. Similarly, the most passionate region of the country is the South where 62 percent of survey respondents said they celebrate the day of love. Interestingly, men spend nearly twice more than women to make it a memorable day.

On average, people celebrating the Valentine’s Day spend $126. This amount, up 8.5 percent from last year, is the highest in the survey’s ten-year history. They spend $74 on gifts for spouses/significant others, $25 on presents for other family members, and
the remaining $27 on goodies for friends, pets, coworkers, children’s classmates and teachers, and others.

Total spending is expected to reach $17.6 billion, up $1.9 billion from last year. People spend $10.3 billion on gifts for spouses/significant others, $3.5 billion on presents for other family members, and the remaining $3.8 billion on goodies for friends, pets, coworkers, children’s classmates and teachers, and others.

Of the $126 average spending, people spend almost $30 on jewelry items, $26 on special evening out, $13 on flowers, $11 on candy, $10 on clothing, and the remaining $36 on gift cards/gift certificates, greeting cards, and other items.

Total spending on jewelry is expected to reach $4.1 billion, up from $3.5 billion last year. Second to jewelry, those with a case of the love bug spend $3.6 billion on a special evening out. They also spend $1.9 billion on flowers, $1.5 billion on candy, $1.5 billion on clothing, and the remaining $3.8 billion on gift cards/gift certificates, greeting cards, and other items.

Spending for Valentine’s Day celebration appears to be “pro-cyclical with a one-year lag.” Total spending rose from $16.9 billion in 2007 to $17.0 billion in 2008, but plunged
to $14.7 billion in 2009 and $14.1 billion in 2010. In the ensuing recovery from the recent recession, total spending spiked to $15.7 in 2011 and a record high of $17.6 billion in 2012. Having some discretionary money to spend makes it easier to express love.

Sources:
BIGinsightTM, Consumer Intentions & Actions Survey, January 12, 2012
Grannis, K., “Americans to Pull Out All the Stops This Valentine’s Day,” www.nrf.com/consumertrends