Why Is Turkey Cheaper When Demand Is Higher?

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When you do your Thanksgiving shopping this week, you will encounter two vastly different options for the centerpiece: an expensive heritage, organic, antibiotic-free, freshly killed turkey; or a relatively cheap, mass-produced, rock-solid-frozen bird. The frozen birds are a pretty attractive deal — especially because this time of year, they are unusually cheap. According to government data, frozen whole-turkey prices drop significantly every November; over the last decade, retail prices have fallen an average of 9 percent between October and November.

That trend seems to defy Econ 101. Think back to those simple supply-and-demand curves from introductory micro, and you'll probably remember that when the demand curve shifts outward, prices should rise. That's why Major League Baseball tickets get most expensive during the World Series — games that (theoretically, anyway) many more people want to see. Similarly, airline tickets spike around Christmas.

But the retail prices of other products nosedive right as demand is at its highest. Take, for example, television sets on the Friday after Thanksgiving — shopping demand is already high, and stores up the ante by offering door-buster discounts. The price for avocados falls ahead of Super Bowl Sunday and Cinco de Mayo and, at least in some markets, tuna prices fall during Lent. This is puzzling to economists, and there are lots of competing theories to explain the phenomenon.

A useful way to understand it is this: Frozen turkeys are (probably) like TVs; fresh turkeys are like roses (maybe).

The most intuitive and popular explanation for a high-demand price dip is that retailers are selling "loss leaders." Stores advertise very low prices — sometimes even lower than they paid their wholesalers — for big-ticket, attention-grabbing products in order to get people in the door, in the hope that they buy lots of other stuff. You might get your turkey for a song, but then you also buy potatoes, cranberries and pies at the same supermarket — all at regular (or higher) markups. Likewise, Target offers a big discount on select TVs on Friday, which will ideally entice shoppers to come in and buy clothes, gifts and other Christmas knickknacks on that frenzy-fueled trip.

That is the supply-side explanation of what's going on. But plenty of economists disagree, and argue that it's actually demand-side forces — changing consumer preferences — that drive these price drops.

Consumers might get more price-sensitive during periods of peak demand and do more comparison-shopping, so stores have to drop their prices if they want to capture sales. Perhaps, during the holidays, the composition of consumers changes; maybe only rich people or people who really love turkey buy it in July, but just about everybody — including lower-income, price sensitive shoppers — buys it in November. Or maybe everyone becomes more price-sensitive in November because they're cooking for a lot of other people, not just their nuclear families.

"People are a little less picky about what they're buying for other people," explains Judith Chevalier, an economics professor at the Yale School of Management. "Let's say I prefer Coke over Pepsi. If I'm buying for myself, I'll probably buy Coke even if it's more expensive. But if I'm buying soda for a party, I have no reason to think everyone else also prefers Coke, so I'll go with whichever brand is cheaper."

One paper looking at canned-tuna prices argued that this kind of brand substitution was the primary case for an overall decline in price during Lent. It turns out that the cheapest tuna brands aren't significantly discounted during Lent, but because the cheap brands temporarily accounted for a much higher share of overall sales, they dragged down the average price of a can of tuna.

But not all highly seasonal goods get cheaper at peak demand. Consider, for example, roses in mid-February.

It's not your imagination: Roses are indeed most expensive around Valentine's Day. In a survey of about 300 florists, the Society of American Florists, an industry group, found that the average price for a dozen arranged long-stemmed roses was $81 this past Valentine's Day, compared with an everyday price of $63.

There are a few possible reasons why market forces are different for roses and frozen turkeys on their respective holidays. For one, the loss-leader strategy really only works if you're a multiproduct retailer, says Chevalier. Florists sell only flowers; they're not willing to take a loss on the one thing they sell in the hope that you'll buy a bunch of other stuff, since you're not likely to buy anything else.

More important, roses — like airline seats or World Series tickets — are what economists refer to as "supply inelastic." It's costly to ramp up rose production in time for peak demand, since the roses must all be picked (and for the most part, flown in from Colombia and Ecuador) in the single week preceding Valentine's Day.

Meanwhile, turkey sellers start putting frozen birds into cold storage as early as January, so they can stockpile turkeys well ahead of the holiday surge. Fresh turkeys, on the other hand, are killed just in time for peak demand — like roses — which is part of the reason fresh birds are so much more expensive. Roses might resemble fresh turkeys for demand-side reasons too, as both are probably purchased disproportionately by higher-income, less price-sensitive shoppers.

They say sharing is the cornerstone of Thanksgiving. As long as enough of us share the same tastes and buying habits — particularly those of us who prefer low price-point, supply-elastic goods — perhaps most of us will continue to get pretty good deals on our holiday dinners.