

Retail Jewelry Prices Surge, Cost of Precious Metals Continues Rising

Jewelers reported flat profits in 2006 despite a slight increase in sales, with many citing the rising costs of precious metals as a factor. Gold and platinum prices have seen increases over the past few years, and analysts predict prices to continue rising in 2007. Platinum is expected to rise as high as \$1495 per ounce this year, with the average hovering around \$1350.

In 1999, the unit price for platinum was \$360. It then rose in price to reach \$900 by 2004. Platinum prices will probably still be high, especially as the demand grows in developing markets like India and China. The environmental demand will also be strong as stricter auto emission standards will require greater platinum usage. Analysts attribute the rise in prices to investment liquidity and physical scarcity, but the value of the dollar and oil prices can also make an impact.

Many jewelers delayed rising prices during the holiday shopping season in November and December, but implemented increases in January. The rise that month was 5.6%, the largest monthly gain in more than twelve years. Valentine's Day sales were sluggish, with many areas of the country being hit with winter storms.

Large chain jewelers are reporting shopper resistance to higher gold, silver and platinum prices, and the industry is fearful that the increase in retail prices will discourage these discretionary purchases. Jewelers must now consider keeping up with increased costs, especially precious metals, yet not scaring shoppers away with dramatic price increases.

JSIS Insurance, April 2007