

CommSec iPhone index: Australia 4th cheapest

Economic trends

- Do we have a Goldilocks Aussie dollar – not too hot, not too cold, just about right? According to CommSec iPhone index Australia is now the 4th cheapest country in the world (of 51 nations) to buy an Apple iPhone 8 in US dollar terms.
- This time last year, Australia was the 25th cheapest country in the world to buy an Apple iPhone 7 (Aussie dollar US80 cents). In 2016 Australia was the 17th cheapest to buy the iPhone 6 Plus (Aussie dollar US76 cents) and in 2015 Australia was fourth cheapest to buy an iPhone (Aussie dollar US69 cents).
- An iPhone 8, 4.7 inch, 64GB is \$1,079 in Australia (US\$775.56 at exchange rates sourced on September 5). In the US, the same phone is US\$699 (US\$765.41 in Los Angeles with state and local taxes) – around 1.3 per cent cheaper. (*The Aussie dollar has fallen further since all the data was compiled on September 5.*)
- Apple is expected to release a new model of the iPhone on Wednesday and Australian consumers will be closely watching the local pricing of the must-have device.
- Turning to the CommSec iPad index. Australia is now the 3rd cheapest country in the world (of 51 nations) to buy an Apple iPad 2018; 9.7-inch tablet device, 32GB in US dollar terms This time last year, Australia was the 17th cheapest country to buy an Apple iPad Pro 10.5-inch tablet device in US dollar terms. (2016: 20th cheapest; 2015: 2nd second cheapest).
- In January 2007 CommSec launched its iPod index as a modern way of looking at purchasing power theory. That is, the theory that the same good should be sold for the same price across the globe once taking into account exchange rates. On current iPad & iPhone pricing the Aussie dollar could be regarded as, at best, as a little “expensive”. Last year we thought the currency was slightly “over-valued”.
- On current pricing, Aussie tourists would only save \$11 by buying an iPad in the cheapest country (Hong Kong) rather than in Australia. When the currency falls Aussie consumers may be better off buying goods locally, and that’s great news for Aussie retailers.

What do the index results show?

- In January 2007, CommSec launched its iPod index. It was designed as a new way of looking at purchasing power theory. That is, the theory that the same good should be sold for the same price across the globe once taking into account exchange rates. *The Economist* magazine has for some time maintained its Big Mac index for the same purpose – that is, tracking the concept of purchasing power parity.
- CommSec has since shifted the focus to Apple iPhone and Apple iPad prices.
- Last year the Aussie dollar was near US80.5 cents and today it is closer to US72 cents. And that change has led to Australia improving on the leader-board of US dollar pricing of the latest iPhone – getting cheaper or more globally competitive than a few years ago.
- On an iPhone 8, 64GB, Australia is now the 4th cheapest place to buy the smartphone in the world. A year ago Australia was the 25th cheapest place to buy the then current iPhone 7 model. On iPad pricing, Australia has lifted from 17th to 3rd cheapest over the past year.
- Simply, Australia is back amongst the cheapest places across the globe to buy popular technology when measured on the same basis as other countries – that is, in US dollar terms.

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- Last year we surmised that the Aussie dollar had become more expensive. The Reserve Bank also noted Aussie dollar strength, saying *“The higher exchange rate is expected to contribute to the subdued price pressures in the economy. It is also weighing on the outlook for output and employment.”*
- Today the Reserve Bank is relaxed about the Aussie dollar: *“The Australian dollar remains within the range that it has been in over the past two years on a trade-weighted basis, but it has depreciated against the US dollar along with most other currencies.”*

Global highs and lows

- It is important to note that sales tax rates provide complications in undertaking comparisons across countries. In Australia the GST is included in the Apple Store price. The sales tax environments aren't as clear on the pricing of iPads and iPhones in many other countries. In Canada and the US there are various prices for the iPads and iPhones depending on the different state or province sales taxes that apply. We have undertaken comparisons with Ontario in Canada and Los Angeles in the US. Apple Japan also quotes prices ex-tax.
- The CommSec iPad and iPhone indexes shows that Latin American, northern and Eastern European countries still pay the most for their tech devices. Australian customers still remain in front of European customers
- On current exchange rates the US (Los Angeles), Hong Kong and Japan are cheapest to buy the iPhone 8 on current exchange rates. Hong Kong and Malaysia are the cheapest places to buy an iPad. On both iPads and iPhones, customers in Brazil, Argentina, Serbia and Croatia pay the highest prices in the world to buy the latest technology.

Purchasing power parity: In theory only

- While the concept of purchasing power parity is good in theory, unfortunately there are complications in practice. As noted above, one of the biggest complications is tax with differing consumption tax rates applied across the globe.
- The other complication with purchasing power parity is freight or shipping cost. If the local price was relatively high and shipping costs weren't overly exorbitant then a buyer may decide to source goods from another country. If enough buyers were to source goods abroad, presumably it would force local retailers to re-assess pricing.
- On current exchange rates Australian consumers probably wouldn't be tempted to buy their iPads and iPhones from abroad while on personal or business trips. For instance an Aussie traveller may just save just \$16 to buy an iPhone in Los Angeles or save \$11 to buy an iPad in Hong Kong.

Apple iPhone 8, 64GB, \$US

Argentina	\$1,438.54	Sweden	\$877.76
Serbia	\$983.72	Romania	\$875.55
Croatia	\$982.13	Thailand	\$870.47
Italy	\$971.51	Bulgaria	\$869.70
Denmark	\$962.95	Slovakia	\$867.30
Brazil	\$960.94	Switzerland	\$859.94
Finland	\$959.94	China	\$854.24
Ireland	\$959.94	Mexico	\$853.59
Portugal	\$959.94	Indonesia	\$843.42
India	\$952.52	Philippines	\$839.72
Macedonia	\$945.92	Russia	\$835.90
Czech Republic	\$944.52	Malaysia	\$835.44
Netherlands	\$938.46	Vietnam	\$834.10
Israel	\$936.97	Singapore	\$831.88
Spain	\$936.78	Taiwan	\$827.38
Belgium	\$936.78	NZ	\$827.15
France	\$936.78	UAE	\$814.58
Norway	\$928.48	Latvia	\$809.40
Slovenia	\$925.20	Canada (Ontario)	\$798.24
Germany	\$925.20	South Africa	\$792.65
Austria	\$925.20	Australia	\$775.56
Iceland	\$922.05	US (Los Angeles)	\$765.41
Luxembourg	\$905.81	Japan tax	\$764.50
Greece	\$902.04	Hong Kong	\$762.80
UK	\$898.11	<i>Japan-ex tax</i>	\$707.87
South Korea	\$887.38	<i>Canada-ex tax</i>	\$706.41
Hungary	\$884.06	<i>US-ex tax</i>	\$699.00

Source: Apple, CommSec, Data at September 5

Apple iPad 2018, 9.7inch, 32gb, \$US

Brazil	\$600.50	Slovakia	\$404.12
Argentina	\$495.13	Austria	\$404.12
Iceland	\$488.64	Spain	\$404.12
Greece	\$473.60	Germany	\$404.12
Serbia	\$472.13	Luxembourg	\$401.96
Croatia	\$467.60	India	\$392.56
Slovenia	\$438.87	Philippines	\$392.56
Denmark	\$434.80	Switzerland	\$389.55
Romania	\$432.64	South Korea	\$385.43
Finland	\$427.28	China	\$375.38
Portugal	\$427.28	Vietnam	\$369.95
Ireland	\$427.28	Canada (Ontario)	\$368.62
Latvia	\$427.28	UAE	\$367.33
Bulgaria	\$426.27	Japan tax	\$366.73
Sweden	\$416.65	Russia	\$366.54
Macedonia	\$416.10	South Africa	\$363.26
Norway	\$415.97	Singapore	\$360.87
France	\$415.70	US (Los Angeles)	\$360.26
Belgium	\$415.70	NZ	\$356.95
Italy	\$415.70	Taiwan	\$353.67
Netherlands	\$415.70	Thailand	\$351.24
Indonesia	\$414.98	Japan	\$339.56
Mexico	\$413.83	Australia	\$337.10
Hungary	\$413.55	Malaysia	\$331.55
UK	\$409.87	Hong Kong	\$329.68
Israel	\$405.04	<i>US-ex tax</i>	\$329.00
Czech Republic	\$404.54	<i>Canada-ex tax</i>	\$326.21

Source: Apple, CommSec, Data at September 5

Australia: Pricing reflects the weaker currency

- Since we began the CommSec iPod index in January 2007, Australia was always one of the cheapest places in the globe to buy the iPod nano media player. In fact Australia was the cheapest place to buy the popular media player in both October 2008 and December 2009.
- We have now shifted to iPads and iPhones for comparison. Australia is now back amongst the cheapest places to buy the must-have tech devices courtesy of Apple pricing and a weaker currency.
- Changes in Australia's relative position over time always reflect fluctuations in the exchange rate as well as local pricing by Apple. The important point is that local retailers and suppliers face the same dilemma as Apple - when currencies change, how quickly should local pricing change? And if you do change selling prices, do you fully adjust for the currency impact? There is a range of influences that play a part in the decision, including a judgement about whether the currency change is likely to be permanent or temporary.
- The Aussie dollar has fallen by around 11 per cent against the US dollar over the past year. So Australia is back in the pack of countries having the lowest-priced Apple products in US dollar terms. Perhaps that means little change in pricing when Apple updates its latest tech devices on Wednesday (Thursday Sydney time)?

Big Mac index, and exchange rates

- CommSec has maintained its iPod index since January 2007 as a way of looking at issues such as the impact of currency changes on consumer spending, globalisation and retailer margins. With relative importance switching from iPods to iPads, CommSec started compiling iPad indexes, and now iPhone indexes.
- The CommSec iPod, iPad and iPhone indexes are designed as modern day variants of the long-running Big Mac index compiled by *The Economist* magazine. Both the iPad and Big Mac indexes work on the theory of 'same good, same price'. That is, the same good should trade at broadly the same price across the globe if exchange rates are adjusting properly.
- *The Economist* uses its Big Mac index to track the economic theory of purchasing power parity (PPP). That is, the theory that the same good should trade for the same price across the globe once adjusted for exchange rates. The index works by dividing the local price of a Big Mac by the US price of a Big Mac. This gives the PPP exchange rate. If the actual exchange rate is above the PPP rate, the theory says that the currency is over-valued, and may need to fall to bring the goods in both countries in line.
- The problem is that Big Macs aren't exchanged across country borders. But the assumption is that Big Macs are a proxy for other goods that certainly may be traded. The other problem is that the Big Mac index assumes a US base, and thus assumes that US goods are appropriately priced.
- The last Big Mac index analysis (July 2018) concluded that the Aussie dollar was "under-valued" by 18.1 per cent against the US dollar (strangely most currencies were regarded as "under-valued"). In other words the Aussie dollar should have been closer to US90.9c rather than US74.6c at that time. Today the Aussie dollar stands nearer to US72 cents.

CommSec iPad and CommSec iPod indexes and exchange rates

- Like the Big Mac index, the CommSec iPad and CommSec iPod indexes assume that the same good should sell for the same price across the globe once exchange rates are taken into account. But the difference with the Big Mac index is that Apple tech devices can indeed be exchanged across the globe. If they are particularly cheap in one country it could cause tourists to buy their tech devices when on holiday, prompt people to buy them online in other countries, or prompt some companies to take advantage of arbitrage opportunities.
- But Apple devices are manufactured in one place (China – mainland China as well as Taiwan) and sold across the globe. So it won't just be the cost of the good that could result in price differences across the globe but also local taxes, freight and different mark-ups.
- But if you assume that the Aussie price for an iPhone should be the same price as that paid by a resident in Los Angeles, then the exchange rate should be closer to US71 cents. Again, if you assume that the Aussie price for an iPhone should be the same as China where the goods are manufactured, then the Aussie dollar is about 11 per cent under-valued.
- The Economist Big Mac index suggested that the Aussie dollar was "under-valued". But the CommSec iPad and iPhone indexes suggest the Aussie dollar closer to the correct valuation at current exchange rates.

What are the implications for interest rates and investors?

- According to the latest CommSec iPad index Australia is the 3rd cheapest country in the world (of 51 nations) to buy an Apple iPad 2018; 9.7-inch tablet device, 32GB in US dollar terms. Last year Australia was the 17th cheapest country to buy an Apple iPad Pro 10.5-inch 64GB Wi-Fi device.
- In 2016 Australia was the 20th cheapest country in the world (of 57 nations) to buy an Apple iPad Pro 12.9-inch 32GB Wi-Fi device. In 2015 Australia was the 2nd cheapest country in the world (of 55 nations) to buy an Apple

iPad Air 2 tablet device. In November 2014 Australia was the 8th cheapest place to buy the new iPad, while in April 2014 Australia was the 13th cheapest to buy the older iPad Air device.

- Notably, over the past year Australia has also improved sharply from 25th cheapest on the CommSec iPhone index to 4th spot. Pricing on the new model will be released on Wednesday.
- Both the CommSec iPad index and CommSec iPhone index are useful in highlighting the globalisation of retail shopping and the powerful role occupied by currency changes.
- Last year, at the then current exchange rates, Australian consumers would have found the latest iPad or iPhone to be less expensive to buy in a raft of Asian countries together with the US and Canada. It was argued the Aussie dollar was too high against major currencies on fundamentals. Perhaps Apple took that into account when pricing the new iPhone 8 back in September 2017?
- Certainly the Reserve Bank has become more comfortable with the level of the Australian dollar as it has fallen over the past year. Most would say that the Reserve Bank is comfortable with the level of the currency.
- When the currency weakens it improves the position of Aussie retailers. Aussie consumers are less inclined to go online and source the goods from abroad. And Aussie tourists may purchase goods at home in preference to buying the goods abroad.

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