

CommSec iPad/iPhone indexes: Australia no longer the cheapest

Economic trends

- **Is the Aussie dollar too strong? According to CommSec iPhone index Australia is now the 25th cheapest country in the world (of 57 nations) to buy an Apple iPhone 7 in US dollar terms. This time last year, Australia was the 17th cheapest to buy the iPhone 6 Plus and a year before Australia was fifth cheapest.**
- **Last year the Aussie dollar was near US76 cents and the year before it was US69 cents. This year the Aussie dollar is near US80.5 cents.**
- **An iPhone 7 32 GB is \$1,079 in Australia (US\$869.67 at current exchange rates). In the US, the same phone is US\$649 (US\$702.54 in California with state and local taxes) – around 24 per cent cheaper.**
- **Apple is expected to release a new model of the iPhone on Tuesday and Australian consumers will be closely watching the local pricing of the must-have device.**
- **Now turning to the CommSec iPad index. Australia is now the 17th cheapest country in the world (of 57 nations) to buy an Apple iPad Pro (released June 5 2017) 10.5-inch tablet device in US dollar terms. This time last year, Australia was the 20th cheapest to buy an iPad Pro 12.9-inch tablet. The year before Australia was the second cheapest to buy an iPad.**
- **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 could save almost \$190 by buying an iPad Pro 10.5-inch tablet in Hong Kong rather than in Australia. When the currency strengthens it does pose challenges for Aussie retailers. If they don't pass on the benefits to customers in the form of cheaper imported goods, Aussie consumers may go online and source the goods from abroad. Or Aussie tourists may purchase goods abroad in preference of buying goods locally.**

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 iPad and Apple iPhone prices.
- Last year the Aussie dollar was near US75.7 cents. Today, the Aussie dollar is near US80.5 cents. And that change has led to Australia slipping down the leader-board on US dollar pricing of the iPhone 7 and being little-changed on the iPad index – but far less globally competitive than a few years ago.
- On an iPhone 7, 32 GB, Australia is now the 25th cheapest place to buy the smartphone in the world. A year ago Australia was the 17th cheapest place to buy the then current iPhone 6s model. On iPad pricing, Australia has edged higher from 20th to 17th over the past year.

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- Simply, Australia is no longer 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.
- Last year we surmised that the Aussie dollar probably was “fairly valued” or perhaps even slightly “over-valued”. This year, the Aussie dollar looks more expensive. But “commodity currencies” like the Australian dollar, Canadian dollar and Norwegian krone are in favour at present. The Reserve Bank has grappled with the issue of whether the Aussie dollar is too firm against major currencies, 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.”*

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 California 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 in paying for iPads but have fallen below a number of European countries on iPhones.
- On current exchange rates Hong Kong and Japan are cheapest to buy the iPad Pro 10.5-inch model on current exchange rates. Saudi Arabia and Japan appear the cheapest places to buy an iPhone. On both iPads and iPhones, Brazilian and Argentinian customers 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 could be tempted to buy their iPads and iPhones from a number of countries while on personal or business trips. For instance an iPad Pro (2017 version) 10.5-inch model costs A\$979 in Australia. On current exchange rates, an Aussie traveller could save almost A\$190 to buy the same good in Hong Kong.

Australia: Pricing reflects the firmer 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 more middle-of-the-pack to buy the must-have tech devices as Apple pricing and the stronger currency has pushed us away from the cheapest levels.
- 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.

Apple iPad Pro, 10.5-inch, 64GB, \$US

Brazil	\$1,619.11	Mexico	\$875.53
South Africa	\$1,082.46	Luxembourg	\$860.10
Argentina	\$1,018.45	Israel	\$854.54
Croatia	\$999.68	Russia	\$819.46
Serbia	\$984.14	UK	\$817.05
India	\$962.68	Canada (Ontario)	\$807.94
Greece	\$961.72	China	\$800.95
Sweden	\$950.32	NZ	\$798.63
Chile	\$936.16	Switzerland	\$793.18
Slovenia	\$935.26	Australia	\$789.07
Czech Republic	\$922.01	India	\$744.73
Bulgaria	\$907.58	Thailand	\$739.96
Poland	\$907.00	Indonesia	\$727.20
Denmark	\$905.66	Philippines	\$727.15
Norway	\$903.39	Vietnam	\$724.84
Macedonia	\$901.77	Singapore	\$721.37
Finland	\$901.54	Malaysia	\$715.41
Portugal	\$901.54	Canada	\$714.99
Ireland	\$901.54	South Korea	\$706.47
Romania	\$901.27	US (California)	\$702.54
Netherlands	\$889.50	Taiwan	\$696.88
France	\$889.50	Hungary	\$693.95
Italy	\$889.50	Saudi Arabia	\$693.07
Belgium	\$889.50	UAE	\$680.41
Spain	\$882.05	Japan tax	\$671.03
Turkey	\$879.73	US	\$649.00
Germany	\$877.47	Hong Kong	\$638.46
Slovakia	\$877.47	Japan ex tax	\$621.33
Austria	\$877.47		

Source: Apple, CommSec, Reuters. Data at September 9

- The Aussie dollar has risen by 6 per cent against the US dollar over the past year. But local pricing hasn't changed much, resulting in Australia no longer having the lowest-priced Apple products in US dollar terms. Perhaps that means price cuts lie ahead when Apple updates its latest tech devices on Tuesday (Wednesday 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 2017) concluded that the Aussie dollar was relatively "under-valued" by 14.6 per cent against the US dollar (most currencies were regarded as "under-valued"). In other words the Aussie dollar should have been closer to US90c rather than US77.05c at that time. Today the Aussie dollar stands nearer to US80.05 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 iPad Pro should be the same price as that paid by a resident in California, then the exchange rate should be closer to US72 cents. Again, if you assume that the Aussie price for an iPad Pro should be the same as China where the goods are manufactured, then the Aussie dollar is "about right" at US80 cents. Although on iPhone pricing an appropriate level of the Aussie dollar would again be around US77 cents.
- The Economist Big Mac index suggested that the Aussie dollar was "under-valued". But the CommSec iPad and iPhone indexes suggest the Aussie dollar is perhaps 5-10 per cent "over-valued" at current exchange rates.

Apple iPhone 7, 4.7-inch, 32GB, \$US

Argentina	\$1,629.55	Australia	\$869.67
Brazil	\$1,133.28	Israel	\$854.54
Turkey	\$1,114.40	Slovenia	\$841.36
Serbia	\$1,028.60	Slovakia	\$841.36
South Africa	\$1,005.13	Greece	\$841.36
Czech Republic	\$977.35	Canada (Ontario)	\$835.83
Chile	\$968.44	China	\$831.83
Italy	\$961.72	Bulgaria	\$830.67
Norway	\$955.09	Taiwan	\$816.91
Poland	\$949.53	South Korea	\$813.46
Sweden	\$947.42	Switzerland	\$803.77
Denmark	\$938.02	Thailand	\$800.36
Ireland	\$937.65	India	\$796.49
Finland	\$937.65	UK	\$790.65
Portugal	\$937.65	Romania	\$784.59
Macedonia	\$933.01	Singapore	\$780.98
Spain	\$927.21	Malaysia	\$763.12
France	\$925.61	Philippines	\$746.81
Netherlands	\$925.61	Canada	\$739.67
Belgium	\$925.61	Vietnam	\$725.63
Russia	\$924.09	Hungary	\$722.16
Germany	\$913.58	Hong Kong	\$715.25
Austria	\$913.58	UAE	\$707.63
Indonesia	\$909.02	US (California)	\$702.54
Luxembourg	\$895.02	Japan tax	\$699.88
Croatia	\$891.10	US	\$649.00
India	\$881.15	Japan ex tax	\$648.03
Mexico	\$875.53	Saudi Arabia	\$639.73
NZ	\$871.30		

Source: Apple, CommSec, Reuters. Data at September 9

What are the implications for interest rates and investors?

- According to the latest CommSec iPad index Australia is the 17th cheapest country in the world (of 57 nations) to buy an Apple iPad Pro 10.5-inch 64GB Wi-Fi device. Last year 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.
- The year before (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.
- The fact that Australia actually improved from 20th to 17th on the CommSec iPad index may reflect the updated pricing on the new device that was released on June 5 2017.
- Notably, over the past year Australia has slipped from 17th cheapest to 25th cheapest on the CommSec iPhone index. But pricing on the new model will be released on Tuesday.
- 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.
- So is the Aussie dollar “over-valued” against the greenback? Certainly at current exchange rates Australian consumers would find the latest iPad or iPhone less expensive to buy in a raft of Asian countries together with the US and Canada. It could be argued the Aussie dollar is too high against major currencies on current fundamentals. Perhaps Apple will take that into account with iPhone 8 (or is it iPhone X) pricing?
- Certainly the Reserve Bank has warned that if the Aussie dollar rose too far from current levels it would provide complications to momentum of the economic expansion.
- When the currency strengthens it does pose challenges for Aussie retailers. If they don't pass on the benefits to customers in the form of cheaper imported goods, Aussie consumers may go online and source the goods from abroad. Or Aussie tourists may purchase goods abroad in preference of buying goods locally.

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