

## CommSec iPod index: Australia now leads the world Global comparisons & currency changes

- **Australia is the cheapest place in the globe to buy an Apple iPod, highlighting just how far the currency has plunged since July. The CommSec iPod index shows that Australia is the cheapest place of 62 countries to buy an Apple iPod 8gb nano music player when measured in US dollar terms.**
- **The value of the iPod index is to highlight implications of currency changes and country relativities. The index is designed to show the cost of local goods for foreign buyers. The sharp fall in the Aussie dollar means goods in Australia have become super-cheap for foreign buyers. Our local goods are not only cheaper for tourists but our domestic produced goods are cheaper on the world stage.**

### Australia becomes cheapest

- Australia is now the cheapest place in the world to buy an Apple iPod nano music player – and it's all thanks to the plunge in the Aussie dollar. While the local price of an iPod has actually fallen since July in line with other countries, the Australian dollar has fallen further than most currencies against the greenback – down over 45 per cent. The bottom line is that our goods have become super-cheap for foreign buyers.
- In April 2008, Australia was the 8<sup>th</sup> cheapest place of 60 countries monitored to buy an Apple iPod but slipped to 14<sup>th</sup> spot in July as the currency soared to 25-year highs. The subsequent sharp drop in the Australian dollar has certainly improved the competitiveness of the currency. However the question now is whether the Australian dollar has fallen too far in relation to other currencies.
- Not only is Australia the cheapest place in the world to buy an Apple iPod, it is the cheapest by a considerable margin. South Korea, Canada and Indonesia are vying for second spot, but prices in each country are around 5 per cent dearer than in Australia.
- The sharp fall of the Australian dollar since July will boost trade competitiveness and assist in insulating Australia from the downturn in the global economy. Over 2000 and 2001, the Australian dollar fell by 28 per cent to a record low of US47.75c, helping to insulate the economy from recession in the US.
- Manufacturers and the tourism sector are the main beneficiaries of the Aussie dollar's fall from grace. While global prices of manufactured goods have remained steady, commodity prices have fallen in line with the currency.

### Local price plunges

- It's important to stress that local iPod prices have fallen, not increased, over recent months. In September, Apple released the 4<sup>th</sup> generation of its iPod nano music player across the globe, with

### CommSec iPod nano index 8 gigabytes, October 2008

	\$US		\$US
Argentina	\$353.20	France	\$189.81
Brazil	\$271.54	China	\$189.51
Russia	\$255.41	Denmark	\$187.97
Uruguay	\$249.00	Chile	\$186.28
Ukraine	\$248.00	Azerbaijan	\$184.06
Iceland	\$246.86	Philippines	\$183.57
Egypt	\$243.75	Peru	\$183.42
South Africa	\$240.45	Japan	\$181.64
Hungary	\$225.53	Sweden	\$179.78
Poland	\$223.66	Norway	\$177.24
Serbia	\$219.92	Ireland	\$177.07
El salvador	\$219.00	Portugal	\$177.07
Guatemala	\$217.21	Spain	\$177.07
Turkey	\$214.20	Italy	\$177.07
Croatia	\$212.87	Netherlands	\$177.07
Israel	\$211.27	Belgium	\$177.07
Czech	\$210.05	UAE	\$176.64
Romania	\$209.72	UK	\$176.32
Slovakia	\$208.43	Greece	\$171.06
Bulgaria	\$204.49	Luxembourg	\$168.29
Estonia	\$203.20	Malaysia	\$167.79
Finland	\$202.55	Singapore	\$167.17
Sri Lanka	\$199.23	Taiwan	\$160.62
Switzerland	\$198.46	India	\$156.62
Mexico	\$196.14	US	\$149.00
Pakistan	\$196.04	Hong Kong	\$148.36
Thailand	\$193.00	NZ	\$145.06
Malta	\$191.07	Korea	\$139.72
Cyprus	\$191.07	Canada	\$138.73
Austria	\$189.81	Indonesia	\$138.47
Germany	\$189.81	<b>Australia</b>	<b>\$131.95</b>

Source: CommSec, Apple

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the 8gb entry level replacing the previous 4gb model.

- In Australia, the new 8gb model is now priced at \$199, down from \$249 for the equivalent sized 3<sup>rd</sup> generation model. Previously, the 4gb entry-level model of the 3<sup>rd</sup> generation iPod nano had cost \$189.
- When CommSec launched the iPod index in January 2007, the 2gb entry-level model cost \$219. So in the space of 22 months there has been a four-fold increase in storage capacity for the iconic music player as well as the inclusion of a raft of extra features but local buyers are now paying \$20 less.
- Certainly 'digital deflation' has not just been confined to the Apple iPod. Consumer digital appliances have continued to fall in price over the past year while at the same time benefiting from quality improvements.

### No more shopping expeditions

- The sharp fall in the Australian dollar over the past three months has completely changed the environment for those travelling abroad. In July, Australian travellers would have been contemplating the bargains to be picked up abroad. However shopping is no longer at the top of the list of things to do. Clearly it's far cheaper to be buying goods here in Australia than in places like Asia or the US.
- Australia has certainly become a more attractive destination for foreign tourists, and it's not just our beaches or scenic beauty. A British tourist can now purchase an iPod on their holidays in Australia for just over £81, a saving of around 25 per cent on the £109 local price in the UK. And a German tourist could buy an iPod for €104, a saving of almost a third on the local price in Germany or France.

### Current standings in the CommSec iPod index

- In July, the cheapest place in the world to buy an Apple 4gb iPod nano was Hong Kong (US\$147.47) followed by the United States (US\$149) and South Korea (US\$151.27). And the dearest place to buy a 4gb iPod nano was Brazil (US\$403.14) followed by Argentina (US\$330.58) and Iceland (US\$302.64).
- Now Australia is the cheapest place to buy the 8gb, entry level, 4<sup>th</sup> generation, Apple iPod nano. Next cheapest is Indonesia (new entry – US\$138.47), followed by Canada (US\$138.73). Argentina is now the dearest place to buy an Apple iPod (US\$353.20), followed by Brazil (US\$271.54) and Russia (US\$255.41).
- A raft of currencies has fallen against the greenback over recent months, especially those countries that are major commodity (raw material) producers such as Australia, New Zealand, Canada and South Africa. As a result, US dollar prices of iPods have generally eased over the past few months. However it is the ranking of currencies that highlights the changes in trade competitiveness.
- Countries in South America and Eastern Europe remain amongst the most expensive places to buy an iPod nano. By comparison, Asia and North America are the cheapest with Western Europe around the middle of the leader board.
- The introduction of the 4<sup>th</sup> generation iPod nano has effectively delivered savings of 20-25 per cent for consumers across the globe

### About the CommSec iPod index

- The CommSec iPod index was launched in January 2007 as a modern day variant of the long-running Big Mac index compiled by *The Economist* magazine.
- Both 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.
- While fine in theory, it is more difficult in practice. Prices can be distorted by a range of factors such as taxes, transport costs, labour laws and trade barriers like tariffs. The key difference between the iPod and Big Mac approaches is that Big Macs are made in a host of countries across the globe whereas iPods are predominately made in China.
- In theory – and especially in the current day with the internet – if the same goods are trading at different prices across the globe, then this opens up the opportunity for trade. That is, an Australian music aficionado may decide to buy an iPod from the US (but that wouldn't be an option now with Australia the cheapest in the world) rather than locally. (Note that the Apple US store doesn't sell iPods internationally, but other retailers certainly do).
- Clearly the buyer also needs to take into account shipping and handling costs. But if large price gaps do open up between countries, the opportunity for more people to "trade" will rise, especially given the ease of purchasing over the internet as well as the increasing propensity of people to travel.
- The CommSec iPod index is a way of looking at issues such as the impact of currency changes on consumer spending, globalisation and retailer margins.

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