

The New CommSec iPad 2 index: Australia is fifth cheapest in the world

Economic trends

- 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.
- But times have moved on. Now CommSec introduces the iPad 2 index. Apple launched its iPad 2 in the US on March 11 and began selling “the second-generation of its third post-PC device” in 25 countries across the globe on March 25.
- Australia is the fifth cheapest place to buy the new iPad 2 device (16gb, Wi-Fi only model) of the 26 countries where it is available. However it is still more than US\$52 more expensive than in California and US\$36 dearer than in Alberta in Canada.

What does the new index 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 had for some time maintained its Big Mac index for the same purpose – that is, tracking the concept of purchasing power parity.
- CommSec still maintains the iPod index with the multimedia device now freely available worldwide. But it is the Apple iPad that now dominates attention. And given that “the second-generation of its third post-PC device” has just been released, we thought it was useful to check how it has been initially priced with an aim of tracking prices across time.
- The good news for Aussie consumers is that Australia is one of the cheapest places in the world to buy the base model iPad 2 (16gb Wi-Fi only) when expressed in US dollar terms. In fact Australia is fifth cheapest (in US dollar terms) to buy the iPad 2 device behind Canada, the US, Mexico and Switzerland. Note there are different sales tax rates in the US and Canada that have to be added to the base price on the Apple web site.
- In its Press Release, Apple noted the following in terms of cost and availability of the iPad 2.
 - “iPad 2 with Wi-Fi will be available in Australia, Austria, Belgium, Canada, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Luxembourg, Mexico, Netherlands, New Zealand, Norway, Poland, Portugal, Spain, Sweden, Switzerland and the UK on March 25 for a suggested retail price of \$499 (US) for the 16GB model, \$599 (US) for the 32GB model, \$699 (US) the 64GB model. iPad 2 with Wi-

CommSec iPad 2 index 16gb, Wi-Fi only, April 2011

	\$US		\$US
Hungary	\$755.91	Spain	\$678.66
Poland	\$720.64	Netherlands	\$678.66
Norway	\$704.09	Italy	\$678.66
Denmark	\$702.75	Portugal	\$678.66
Sweden	\$695.28	Luxembourg	\$645.01
France	\$692.83	UK	\$640.55
Greece	\$692.83	NZ	\$609.50
Czech Reput	\$678.91	Australia	\$599.32
Germany	\$678.66	Switzerland	\$594.86
Austria	\$678.66	Mexico	\$589.17
Belgium	\$678.66	Canada (Alberta)	\$563.14
Iceland	\$678.66	US (California)	\$547.65
Finland	\$678.66	Canada	\$536.32
Ireland	\$678.66	US	\$499.00

Source: CommSec, Apple

Craig James – Chief Economist (Author)

(02) 9118 1806 (work), 0419 695 082 (mobile), | craig.james@cba.com.au

Produced by Commonwealth Research based on information available at the time of publishing. We believe that the information in this report is correct and any opinions, conclusions or recommendations are reasonably held or made as at the time of its compilation, but no warranty is made as to accuracy, reliability or completeness. To the extent permitted by law, neither Commonwealth Bank of Australia ABN 48 123 123 124 nor any of its subsidiaries accept liability to any person for loss or damage arising from the use of this report.

The report has been prepared without taking account of the objectives, financial situation or needs of any particular individual. For this reason, any individual should, before acting on the information in this report, consider the appropriateness of the information, having regard to the individual's objectives, financial situation and needs and, if necessary, seek appropriate professional advice. In the case of certain securities Commonwealth Bank of Australia is or may be the only market maker.

This report is approved and distributed in Australia by Commonwealth Securities Limited ABN 60 067 254 399 a wholly owned but not guaranteed subsidiary of Commonwealth Bank of Australia. This report is approved and distributed in the UK by Commonwealth Bank of Australia incorporated in Australia with limited liability. Registered in England No. BR250 and regulated in the UK by the Financial Services Authority (FSA). This report does not purport to be a complete statement or summary. For the purpose of the FSA rules, this report and related services are not intended for private customers and are not available to them.

Commonwealth Bank of Australia and its subsidiaries have effected or may effect transactions for their own account in any investments or related investments referred to in this report.

Fi + 3G will be available for a suggested retail price of \$629 (US) for the 16GB model, \$729 (US) for the 32GB model and \$829 (US) for the 64GB model. iPad 2 will be available in Hong Kong, Korea, Singapore and additional countries in April, and in many more countries around the world in the coming months. Further international availability and pricing will be announced at a later date. “

- In US dollar terms, the iPad 2 device ranges in price from US\$755.91 in Hungary to US\$499 in US states like Oregon and Montana that don't charge sales tax.

Purchasing power parity in theory only

- While the concept of purchasing power parity is good in theory, unfortunately there are complications in practice. One of the biggest complications is tax. In Hungary the iPad 2 seems expensive, but it must be remembered that a 25 per cent value added tax (VAT) is applied. The same rate applies in Denmark. In the US, some states don't apply a sales tax, but even in California with the highest sales tax rate of 8.25 per cent a base model iPad 2 would be US\$51.67 or around 9 per cent cheaper than in Australia.
- The other complication with purchasing power parity is freight or shipping cost. Still, 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.

Shopping around

- While Australia is one of the cheapest places to buy a base model iPad 2, it's important to note that the local price is still equivalent to around US\$50-60 higher than the US purchase price. Clearly given government reluctance to charge GST on overseas purchases, if a local buyer could get the shipping cost below \$60 it would pay to buy an iPad 2 from the US.
- The PriceUSA site (www.priceusa.com.au) quotes A\$558.52 to ship an Apple iPad 2 to Australia using the cheapest Priority Mail shipping option. The local price is A\$579, so it is clear that there is scope to purchase abroad. However an Aussie traveller certainly would be better off purchasing their iPad 2 in the US or Canada than here in Australia. It will also be interesting how the iPad 2 is priced in places like Hong Kong, Singapore and Korea when it is launched in those countries later in the month.
- It will also be possible to track local and overseas prices of the iPad 2 over time given that 25 countries had a common launch date. If local pricing is not responsive to changes in exchange rates then buyers will be quick to exploit the differences that emerge across countries.
- While Hungary is the dearest place to buy an iPad 2 device, clearly the risk is that buyers will merely take the 2-hour drive from Budapest to Vienna and save more than 11 per cent on their purchase.

What are the implications for investors?

- The CommSec iPad 2 index is useful in highlighting the globalisation of retail shopping and the powerful role occupied by currency changes. Australia is the fifth cheapest place to buy a base model iPad 2 device, but even though prices are relatively low, buyers are still marginally better off purchasing in the US than in Australia. And certainly travellers to the US and Canada can enjoy substantial savings by purchasing an iPad 2 while they are away.
- Australian retailers are already under substantial pressure from consumer conservatism and a strong Aussie dollar and the pressures aren't likely to ease any time soon. Retailers must constantly keep track of local and overseas pricing, new foreign suppliers offering low shipping costs and exchange rate movements.
- While Australia is currently one of the cheapest places to buy an iPad 2, as CommSec has demonstrated with the iPod index, if pricing is not responsive to currency changes then opportunities to purchase abroad quickly open up. Over the five days since the iPad 2 was launched, the Australian dollar has lifted 1.4 per cent against the greenback. With no change in pricing that means the iPad has become US\$8.33 more expensive.
- Our equity analysts have HOLD ratings on David Jones and JB Hi-Fi but BUY ratings on Harvey Norman and Myer.

Craig James, Chief Economist, CommSec
Work: (02) 9118 1806; Home: (02) 9525 2739;
Mobile: 0419 695 082

