

CommSec iPod index: Something for nothing Global comparisons & currency changes

- It's not often that you get something for nothing. But that's what consumers across the globe got a month ago when Apple released its latest iPod music player. The old 2 gigabyte iPod nano was replaced by a video-enabled 4gb model but Apple left prices unchanged.
- The CommSec iPod index has shifted with the times, moving from the old 2gb model to the new 4gb entry level model. The latest CommSec iPod index shows that Australia is still the 8th cheapest place of 55 countries across the globe to buy a Apple iPod 4gb nano music player. In US dollar terms, an iPod can be purchased for just over US\$175 in Australia, around US\$35 cheaper than in Europe or the UK.
- The CommSec iPod index is a way at looking at issues such as the impact of currency changes on consumer spending, globalisation and retailer margins.
- Globalisation, technological change and the rising Australian dollar are all positives from a consumer standpoint. But Australian manufacturers are facing probably the most challenging period on record.

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What does it all mean?

- It's not often that you get something for nothing. But on September 5, Apple gave consumers more bang for their bucks when it released a suite of new iPod nano music players. The 2 gigabyte entry-level nano was replaced by a video-enabled 4gb model, but despite the extra capacity and features, the price was left unchanged. Even in technology land where there are constant improvements in product quality, it ranked as a big deal.
- So what to do with the CommSec iPod index – launched in January as a light-hearted way of assessing currency changes and the impact of globalisation? We just shifted from the 2gb to the 4gb model. In Australia, the 4gb fell almost 30 per cent from \$279 to \$199 despite the new model having extra features including video capability.

CommSec iPod nano index 4 gigabytes, October 2007

	\$US		\$US
Brazil	\$369.61	Ireland	\$211.62
Bulgaria	\$318.60	Germany	\$211.62
Argentina	\$317.45	Netherlands	\$211.62
Israel	\$300.80	Denmark	\$209.26
Peru	\$294.08	UK	\$201.92
Chile	\$294.06	Mexico	\$201.87
Malta	\$293.83	Cyprus	\$201.85
Egypt	\$269.10	Luxembourg	\$201.12
Romania	\$266.60	Poland	\$200.52
Uruguay	\$260.00	Philippines	\$198.39
Turkey	\$256.12	Spain	\$197.42
Hungary	\$254.50	Greece	\$196.51
Azerbaijan	\$252.11	Switzerland	\$195.43
Serbia	\$249.14	India	\$183.47
Croatia	\$245.41	Malaysia	\$181.82
Czech	\$242.54	Korea	\$180.60
Slovakia	\$234.13	NZ	\$180.58
Estonia	\$226.67	China	\$179.63
South Africa	\$226.60	Pakistan	\$179.48
Finland	\$225.82	Australia	\$175.42
France	\$225.82	Thailand	\$174.89
Russia	\$220.32	Canada	\$169.68
Norway	\$220.20	Singapore	\$167.31
Sweden	\$215.35	Taiwan	\$165.82
Belgium	\$211.62	Japan	\$154.21
Austria	\$211.62	US	\$149.00
Italy	\$211.62	Hong Kong	\$148.12
Portugal	\$211.62		

Source: CommSec, Apple

Note that pricing for some countries hasn't adjusted yet to the new model

- Little has changed for Australia in the country comparisons. In July, Australia was the 8th cheapest place in the world to buy a 2gb iPod nano. And currently Australia is still the 8th cheapest of 55 countries – this time to buy the new 4gb iPod nano.
- Apple can offer greater features for the same price because of advances in technology. Market research company, iSuppli, estimates that the materials for the new 4gb nano cost US\$58.85, 19 per cent lower than the previous version released in late 2006. In the US, the 4gb nano retails for US\$149.
- It's clear from the changes in the Apple iPod range that price deflation is alive and well in the technology space. Innovation continues at a fast pace, leading to constant improvements in the quality and speed of digital goods, lower costs and lower prices. Manufacturers must quickly respond to changes – not just in product offerings, but pricing, and that means monitoring currency shifts.
- It is a near-nirvana situation for consumers. Not only does the quality of digital goods like cameras, TVs and MP3 players continue to improve, but at the same time prices continue to drop. And this near-nirvana situation is not limited to tech goods. Production of a raft of goods from clothing to cars is becoming more global, pushing down costs and therefore final prices. At the same time, consumers have unparalleled opportunities to compare prices and purchase goods either locally or overseas.
- The onus is clearly on retailers and manufacturers to constantly do their homework, monitoring currency changes, competitor prices and evaluate the cheapest way to either source or manufacture products.
- Australian consumers can have few complaints at present as iPods remain far cheaper than in most parts of the globe. In fact, UK and European tourists would do well to purchase their iPods on holiday down-under. But somewhat perversely, the closer that the Aussie dollar moves to parity with the greenback, the greater would be the allure for Australian tourists to purchase their iPods in the US. That is, unless Apple responds to the stronger Aussie dollar by cutting prices.

Arbitrage opportunities from regional iPod prices?

- Apart from the global change to iPod models and prices, there was a raft of price changes for the music player across countries. No doubt currency changes and assessment of regional disparities were key factors behind the price movements because there was a good mix of both prices hikes and cuts. Based on website monitoring, Apple lifted iPod prices in Greece, Turkey, Cyprus, Switzerland, New Zealand, Israel and Slovakia. But price drops were recorded in countries such as Spain, Belgium, Luxembourg, Austria, Sweden, Denmark, Norway, Singapore and Malaysia.
- It's clear that currency movements can highlight interesting issues for companies of world goods such as Apple. For instance, French music lovers currently can save €24 or 15 per cent by buying a 4gb iPod nano in Switzerland rather than locally. Similarly Chinese buyers could save 210 yuan or 15 per cent by purchasing their iPods in neighbouring Hong Kong rather than locally. The interesting point being that iPods are actually manufactured in mainland China. And the Canadian dollar has moved to parity with the US dollar but an iPod costs C\$169 in Canada, effectively \$20 more than the US\$149 purchase price in the United States.
- The latest price changes also mean that Spain and Greece are now the cheapest places in Europe to buy an Apple iPod. In Spain a 4gb iPod nano costs €139, €20 less than in neighbouring France and €10 less than in neighbouring Portugal.

Technology goods are different

- Technology goods are certainly different. A Big Mac may be the same across the globe, but it is hard to imagine a change that would see prices slashed overnight wherever they are sold. But with increasing globalisation, especially of manufactures, prices of more goods will be set centrally, thus



putting greater focus on aspects like currency shifts.

- The Apple iPod is very much a world good, with the music player virtually the same across the globe. So with the cost of manufacture the same, the key pricing differences get down to areas such as freight, packaging, distribution and regional marketing. However competition can vary depending on the country, further affecting pricing and Apple must also be mindful of currency changes that can produce regional anomalies.

Implications of a US90c Australian dollar

- Over a third of all goods sold in Australia are sourced from abroad. But clearly that proportion is far higher across a raft of manufactured good categories. For instance, locally-produced cars accounted for just 18.7 per cent of all cars sold in September.
- And with the Australian dollar perched at 18-year highs above US88 cents, more manufacturers are going to review strategies. Local manufacturers must assess whether they continue to produce here in Australia or operate more as distributors for their brands, sourcing goods from abroad, especially China.
- Globalisation, technological change and the rising Australian dollar are all positives from a consumer standpoint. But for manufacturers and retailers, the forces of change are less positive, ensuring that competitive forces remain strong and keeping prices low. In fact Australian manufacturers are facing probably the most challenging period on record.
- A stronger Australian dollar tends to be good news for retailers. Imported goods become cheaper, prompting consumers to buy more. And usually retailers pass on some, but not all, of the currency savings, boosting margins. But with the ability of consumers to purchase online – both locally and abroad – retailers need to ensure that the pricing of their goods remains competitive.

The CommSec iPod index

- The CommSec iPod index was launched in January 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, that 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 (or for that matter, the cheapest place, Hong Kong) 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.

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