

## The Big Mac index

## Cheesed off

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## Burgernomics points to uncompetitive currencies in continental Europe

## Value Meals

The hamburger standard

	Big Mac prices		Implied PPP† of the dollar	Actual dollar exchange rate July 13th	Under(-) / over(+) valuation against the dollar, %
	In local currency	In dollars*			
United States‡	\$ 3.57	3.57			
Argentina	Peso 11.5	3.02	3.22	3.81	-15
Australia	A\$ 4.34	3.37	1.22	1.29	-6
Brazil	Real 8.03	4.02	2.25	2.00	+13
Britain	£2.29	3.69	1.56§	1.61§	+3
Canada	C\$ 3.89	3.35	1.09	1.16	-6
Chile	Peso 1750	3.19	490	549	-11
China	Yuan 12.5	1.83	3.50	6.83	-49
Czech Republic	Koruna 67.92	3.64	19.0	18.7	+2
Denmark	DK 29.5	5.53	8.26	5.34	+55
Egypt	Pound 13	2.33	3.64	5.58	-35
Euro Area**	€ 3.31	4.62	1.08††	1.39††	+29
Hong Kong	HK\$ 13.3	1.72	3.73	7.75	-52
Hungary	Forint 720	3.62	202	199	+1
Indonesia	Rupiah 20900	2.05	5,854	10,200	-43
Israel	Shekel 15	3.77	4.20	3.97	+6
Japan	Yen 320	3.46	89.6	92.6	-3
Malaysia	Ringgit 6.77	1.88	1.90	3.60	-47
Mexico	Peso 33	2.39	9.24	13.8	-33
New Zealand	NZ\$ 4.9	3.08	1.37	1.59	-14
Norway	Kroner 40	6.15	11.2	6.51	+72
Peru	New Sol 8.056	2.66	2.26	3.03	-25
Philippines	Peso 99.39	2.05	27.8	48.4	-42
Poland	Zloty 7.6	2.41	2.13	3.16	-33
Russia	Ruble 67	2.04	18.8	32.8	-43
Saudi Arabia	Riyal 11	2.93	3.08	3.75	-18
Singapore	S\$ 4.22	2.88	1.18	1.46	-19
South Africa	Rand 17.95	2.17	5.03	8.28	-39
South Korea	Won 3400	2.59	952	1,315	-28
Sweden	SKR 39	4.93	10.9	7.90	+38
Switzerland	CHF 6.5	5.98	1.82	1.09	+68
Taiwan	Taiwan \$ 75	2.26	21.0	33.2	-37
Thailand	Baht 64.49	1.89	18.1	34.2	-47
Turkey	Lira 5.65	3.65	2.45	1.55	+2
United Arab Emirates	Dirhams 10	2.72	2.80	3.67	-24
Colombia	Peso 7000	3.34	1,961	2,096	-6
Costa Rica	Colones 2000	3.43	560	583	-4
Estonia	Kroon 32	2.85	8.96	11.2	-20
Iceland	Kronur 640	4.99	179	128	+40
Latvia	Lats 1.55	3.09	0.43	0.50	-13
Lithuania	Litas 7.1	2.87	1.99	2.48	-20
Pakistan	Rupee 190	2.30	53.2	82.6	-36
Philippines	Peso 99.39	2.05	27.8	48.4	-42
Sri Lanka	Rupee 210	1.83	58.8	115	-49
Ukraine	Hryvnia 14	1.83	3.92	7.66	-49
Uruguay	Peso 61	2.63	17.1	23.2	-26

‡Average of New York, Chicago, Atlanta and San Francisco §Dollars per pound \*\*Weighted average of prices in euro area ††Dollars per euro

Sources: McDonald's; The Economist

WHEN demand is scarce and jobs are being lost, no one relishes a strong currency. A country with an uncompetitive exchange rate will struggle to sell its wares abroad and will also cede its home market to foreign firms. A weak exchange rate, by contrast,

encourages consumers to switch from pricey imports to cheaper home-produced goods and services. So which countries has the foreign-exchange market blessed with a cheap currency, and which has it burdened with a dear one?

*The Economist's* Big Mac index, a lighthearted guide to valuing currencies, provides some clues. It is based on the theory of purchasing-power parity (PPP), which says that exchange rates should equalise the price of a basket of goods in each country. In place of a range of products we use just one item, a Big Mac hamburger, which is sold worldwide. The exchange rate that leaves a Big Mac costing the same in dollars everywhere is our fair-value benchmark.

The dollar buys the most burger in Asia. A Big Mac costs 12.5 yuan in China, which is \$1.83 at today's exchange rate, around half its price in America. Other Asian currencies, such as the Malaysian ringgit and Thai baht, look similarly undervalued. Businesses based in continental Europe have most to be cheesed off about. The Swiss franc remains one of the world's dearest currencies. The euro is almost 30% overvalued on the burger gauge. Denmark and Sweden look even less competitive.

Care is needed when drawing quick conclusions from fast-food prices. The cost of a burger depends heavily on local inputs, such as rent and wages, which are not easily arbitrated across borders and tend to be lower in poorer countries. So PPP gauges are better guides to misalignments between countries with similar incomes.

On that basis, the markets have been kindest to British exporters. A year ago the pound was overvalued by more than a quarter on the Big Mac gauge. Now it is close to its fair value against the dollar and looks cheap against the euro. That shift has upset some other EU countries that had relied on selling to spendthrift British consumers. But after years of struggling with an overvalued currency, British firms will feel they deserve a little mercy.