

The Big Mac index

Cheesed off

Burgernomics points to uncompetitive currencies in continental Europe

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 light-hearted 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 bhat, 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. ■

Value meals

The hamburger standard

	Big Mac prices in dollars*	Implied PPP† of the dollar	Under(-)/ over(+) valuation against the dollar, %
United States†	3.57	-	-
Argentina	3.02	3.22	-15
Australia	3.37	1.22	-6
Brazil	4.02	2.25	+13
Britain	3.69	1.56 [§]	+3
Canada	3.35	1.09	-6
Chile	3.19	490	-11
China	1.83	3.50	-49
Denmark	5.53	8.26	+55
Egypt	2.33	3.64	-35
Euro Area**	4.62	1.08††	+29
Hong Kong	1.72	3.73	-52
Hungary	3.62	201	+1
Indonesia	2.05	5,854	-43
Japan	3.46	89.6	-3
Malaysia	1.88	1.90	-47
Mexico	2.39	9.24	-33
New Zealand	3.08	1.37	-14
Norway	6.15	11.20	+72
Peru	2.66	2.26	-25
Philippines	2.05	27.8	-42
Poland	2.41	2.13	-33
Russia	2.04	18.8	-43
Saudi Arabia	2.93	3.08	-18
Singapore	2.88	1.18	-19
South Africa	2.17	5.03	-39
South Korea	2.59	952	-28
Sweden	4.93	10.9	+38
Switzerland	5.98	1.82	+68
Taiwan	2.26	21.0	-37
Thailand	1.89	18.1	-47
Turkey	3.65	1.58	+2
UAE	2.72	2.80	-24

*At current exchange rates †Purchasing-power parity; local price divided by price in the United States ‡Average of New York, Chicago, Atlanta, San Francisco §Dollars per pound
**Weighted average of prices in euro area ††Dollars per euro

Sources: McDonald's; *The Economist*