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Big Mac index

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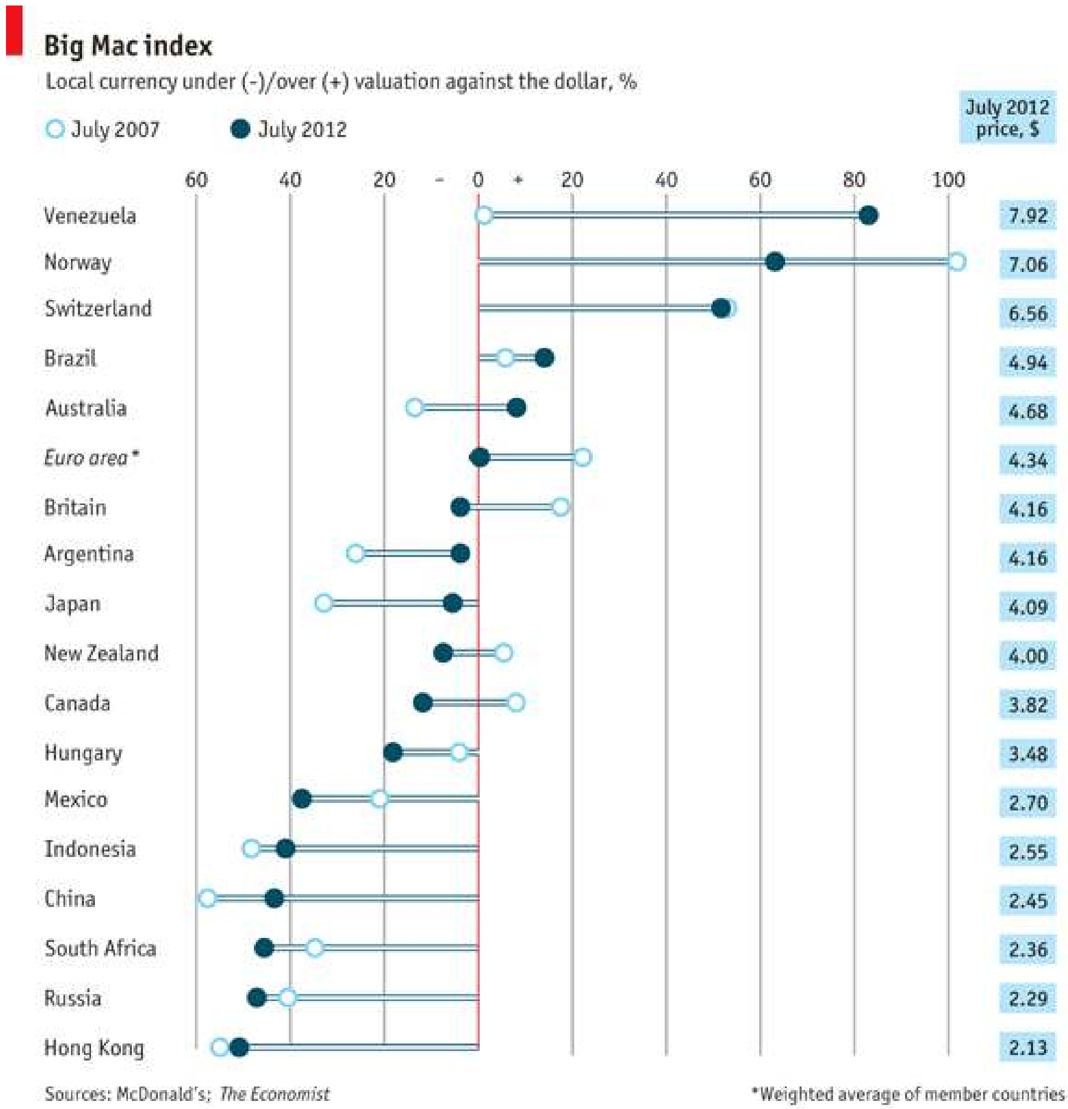
The Economist's latest Big Mac index

THIS time round our Big Mac index looks at changes since global money-markets seized up in the summer of 2007. The index is based on the theory of purchasing-power parity, which says that exchange rates should eventually adjust to make the price of a basket of goods the same in each country. Our basket contains just one item: the Big Mac hamburger. It works by calculating the exchange rate that would leave a Big Mac costing the same in each country. For example: at current exchange rates a Big Mac, which sells for $4.33 in America, costs just $2.29 (75 roubles) in Russia, whereas in Brazil it sells for a sliver under $5 (10 reais). So the dollar buys a lot of burger in Russia, signalling that the rouble is cheap and the real rather pricey. There have been some big shifts in fortune since the first rumblings of the crisis. The Venezuelan bolivar has moved from 1% to 83% overvalued thanks to high inflation and a static currency peg with the dollar which is creating a growing trade imbalance with America. The Australian dollar has moved from being 14% undervalued to 8% overvalued. In the early part of the crisis Australia’s well-capitalised banks proved remarkably resilient; more recently, the currency has benefited from a spike in commodities prices, and from strong exports to China. By contrast, the British pound is now undervalued: its financial industry, a big chunk of the overall economy, was at the heart of the recent turmoil (the pound depreciated sharply in 2008) and its biggest export market, the euro zone, is in a dreadful mess.



For the full data set see here.

(http://www.scribd.com/doc/102253973/Big-Mac-Index-July-2012)