

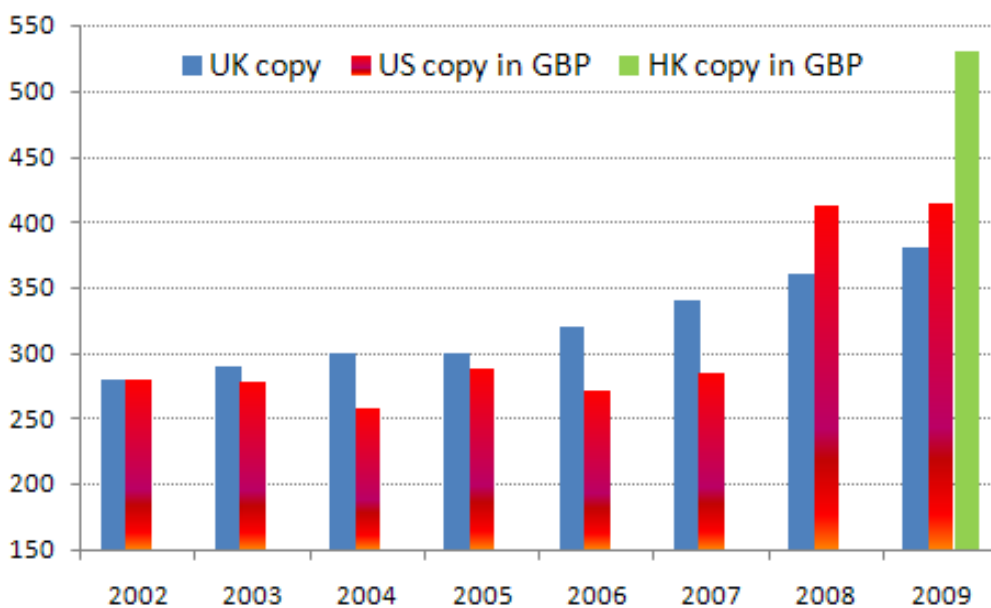


Long Term Data and Presentation Issues Charles de Trenck 28 April 2009

Does the price of a copy of the Economist over time look anything like the Economist Big Mac Index?

I got tired of looking at the Big Mac Index and seeing the price of the Economist rise even more at times, with no apparent grounding (especially the HK price of a copy) in other price series. The price in Hong Kong in the last few years has moved from HK\$40 to HK\$60, leading me at the time of the first big increases to suspect the Economist was pricing locally to get higher margins where they could. On a recent weekend I went through UK and US Economists on line to track price changes. With my colleague, Sten, we then looked at the variances in performances between the Big Mac Index and Economist pricing strategies and changes. One of the first things we found was that the Economist Big Mac Index data is interesting and useful, but the PPP outputs (the purpose of the Big Mac Index) were less useful than the inputs. So we went back to looking at the data behind the PPP series, with a focus on the UK vs the US.

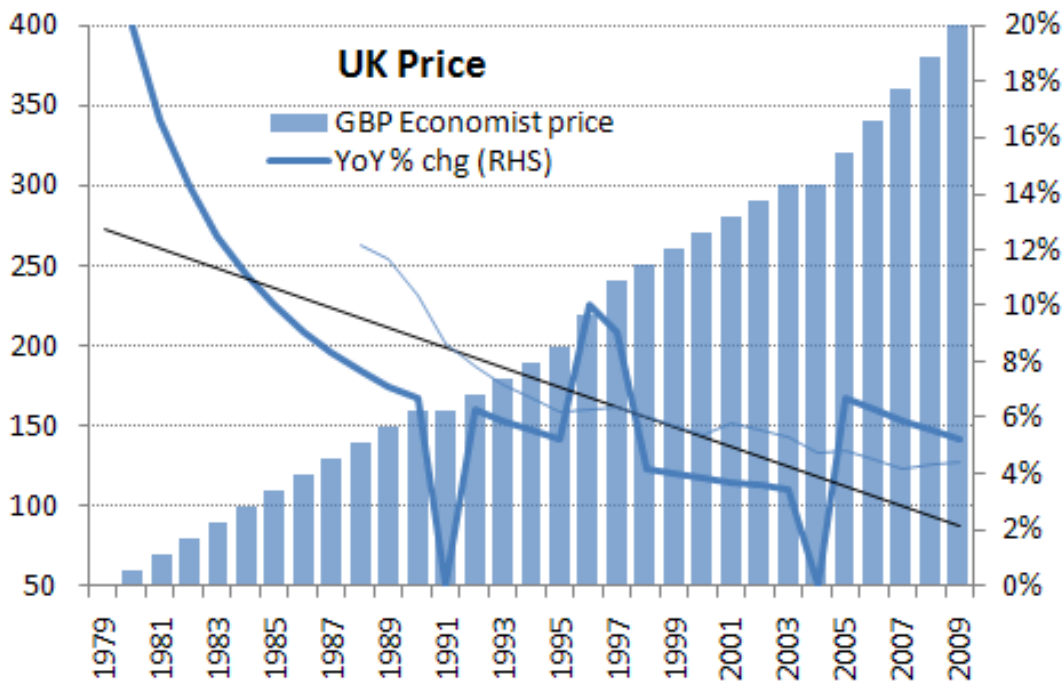
The Economist: UK Cover Price in Pence versus US Cover Price Using Yr-end* FX (HK 2009 for reference)



Sources: Economist; Transport Trackers *Over the years The Economist often raised prices around Sept

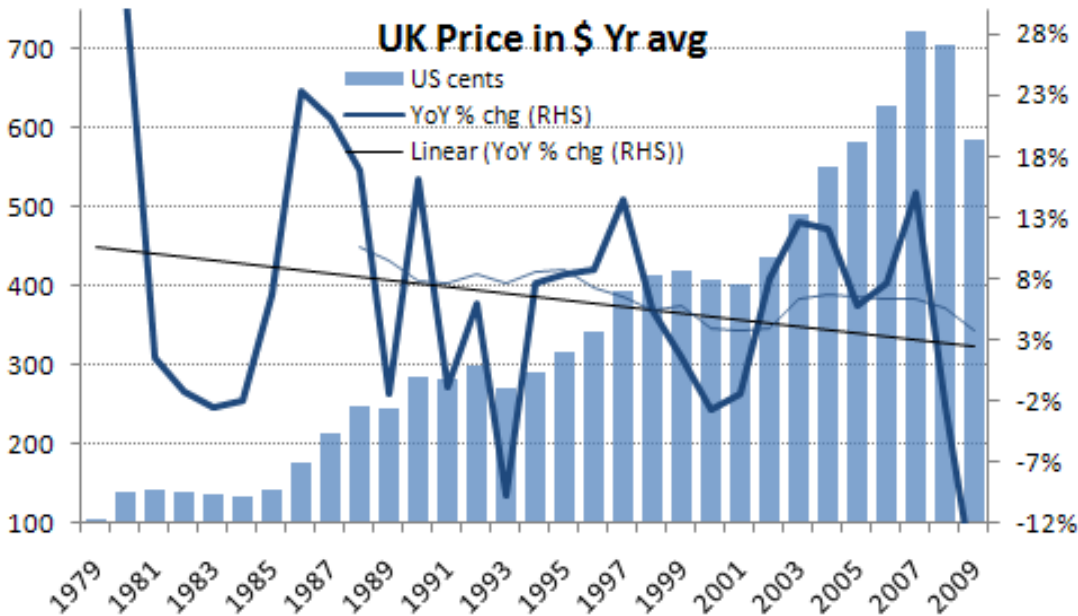
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The Economist Price Increases in Home Market, 1979 - 2009



Source: Economist covers; Transport Trackers

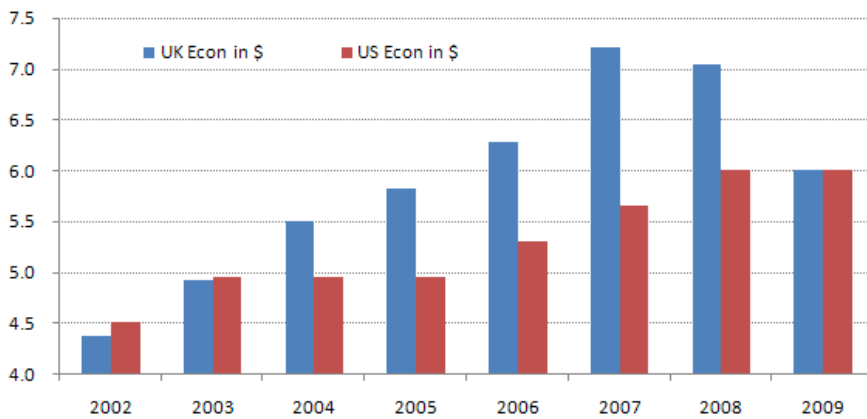
The Economist Price (UK) Increases in US Yr-avg Terms (ie, dollar rebound '08), 1979 - 2009



Source: Economist covers; Transport Trackers

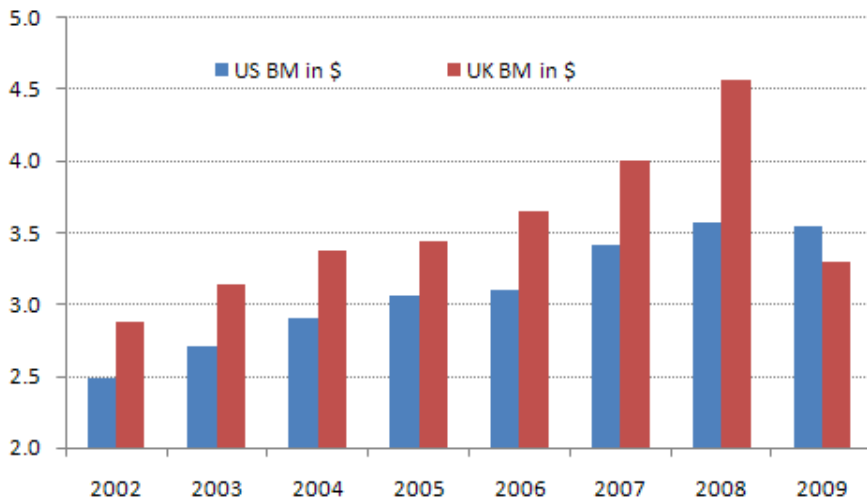
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Economist Parity: UK edition in US\$ Terms vs US Edition in US\$, 2002 – 2009 (using Economist Big Mac Index FX rates)



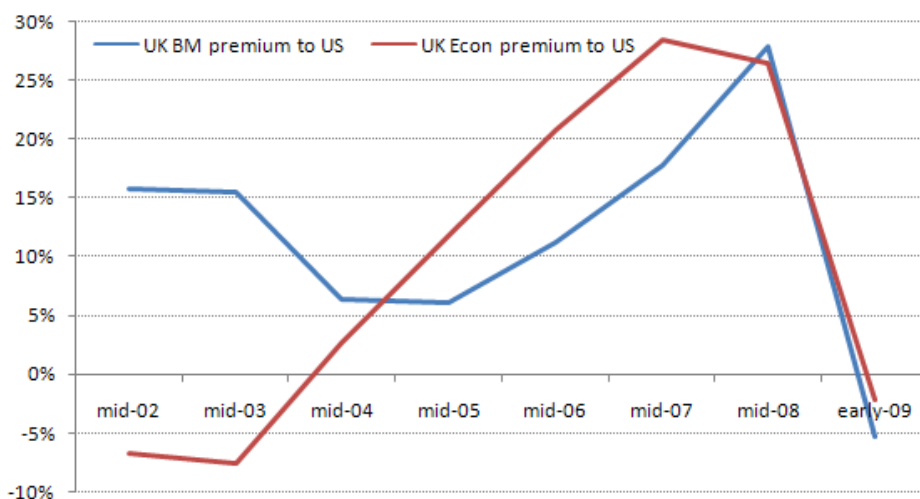
Source: Economist; Transport Trackers

The UK Big Mac in US\$ Terms vs US Big Mac in US\$, 2002 – 2009 (using Economist Big Mac Index FX rates)



Source: Economist; Transport Trackers

Conclusion: Big Mac UK to US Performance Similar to Economist's Own Performance 2002-09 (after initial Big Mac bigger premium to Economist in USD terms)



Source: Economist; Transport Trackers

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Over the longer term, beyond cycle to cycle comparisons, time series and indices get blurred. Individual inputs into basket prices and mechanisms experience tremendous changes and divergences. And over time, say 50 or 100 years, the drift between series and individual inputs gets more and more difficult to gauge. That is why looking at the price of gold or an Economist copy can be an interesting backtest over very long periods. And to make it more interesting look at the Economist copy in local market versus US dollar terms.

Comments welcome