



# *Worth Noting*

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**Worth Noting is the journal of research and conferences company L21. It is focused on issues of relevance and interest to senior executives.**

High petrol prices at the pump seem to engender more consumer outrage than perhaps any other product.

In this edition of Worth Noting, we want to examine a few facts about petrol pump prices:

1. How do Australian prices compare internationally?
2. How do Australian price fluctuations compare internationally?

## **Australian pump prices by international comparison**

Should Australian consumers be happy with the prices we pay? Let's look at the actual facts.

<b>Country</b>	<b>Pence/litre</b>
Belgium	71.2
Denmark	78
Ireland	60
Finland	71.2
France	69.2
Germany	72.5
Greece	53.9
Netherlands	81.8
Italy	72.5
Norway	76.4

Poland	63.9
Spain	56.5
Sweden	73.0
Switzerland	59.1
UK	78.7
USA	26.7
Kuwait	13
Saudi Arabia	11
Australia	38

Source: SFPAE; CBC (data accurate end of May 2004)

It does not look too bad for us does it? Petrol in oil rich Kuwait and Saudi Arabia is ridiculously cheap. That's understandable. By international standards, pump prices in the U.S. is also very cheap. Americans should have little to complain about on this standard.

Moreover, on the face of it, the facts reveal that we should have little to complain about. After the U.S., we enjoy the cheapest petrol prices in the Western developed world.

Of course, we should look a little deeper than just raw pump prices to make any meaningful comparison.

Much of it is about *purchasing power*. Let us take the omnipresent Big Mac index: How does a litre of fuel compare to the price of a Big Mac in various countries?

Below will be a table comparing with the ***L21 Big Mac-Pump Price index*** (BMP Index). The formula is simple:

<b>BMP Index</b> = $\frac{\text{Price of Big Mac (in U.K. pounds)}}{\text{Pump Price/litre (in U.K. pounds)}}$
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Hence, the higher the BMP Index, the cheaper pump prices are in that country (vis-à-vis Big Mac purchasing power) by international standards. Or stated differently, the higher the BMP Index, the less Big Macs we have to give up when buying petrol.

## International BMP Index Comparisons, May 2004

Country	BMP Index
Australia	2.60
U.K.	2.15
U.S.	5.58
Kuwait	9.18
Saudi Arabia	12
Denmark	2.81
Norway	3.96
Poland	1.34
Sweden	2.63
Switzerland	4.20

Source: SFPAGE; CBC; Expatika, L21 Analysis

The Kuwaitis and Saudis still have it easy as far as the BMP Index goes. However, the index does give us a truer perspective as to how much Australians pay at the fuel pump compared to other countries.

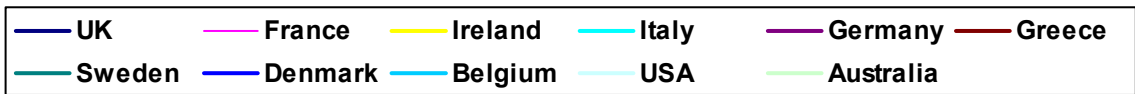
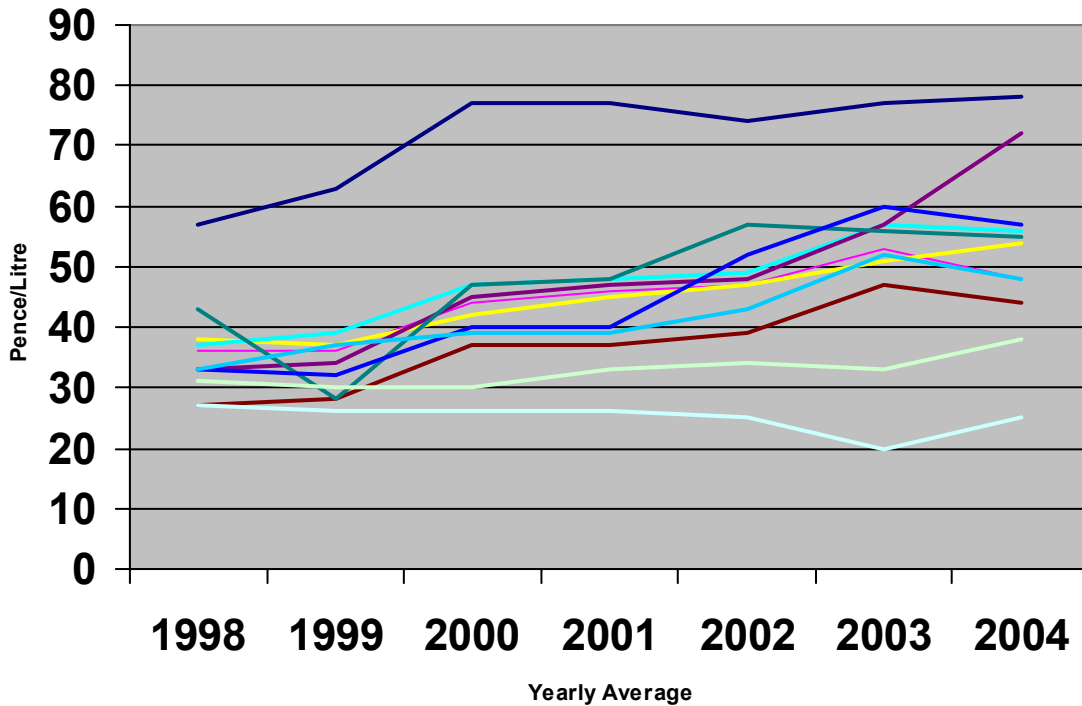
Even though the actual; price/litre of unleaded petrol is less in raw dollar terms than international counterparts, in terms of the price vis-à-vis purchasing power, we are not so much better off than other Western developed countries. Once again, the Americans do very well – they do not have to sacrifice that many Big Macs to get their petrol.

We are in the middle range with countries such as the U.K., Denmark and Sweden. By this standard, we shouldn't get too excited or outraged. We do not have too much to complain about but neither do we have much to boast about.

### **How do Australian petrol pump prices compare internationally?**

In many respects, what matters is not how much petrol prices are but how much they fluctuate. This is the planning or budgeting aspect. A sudden increase in pump prices weakens our ability to plan ahead and budget. Let's look at how Australian price fluctuations compare internationally.

### Fuel Price Trends – Survey of Selected Countries



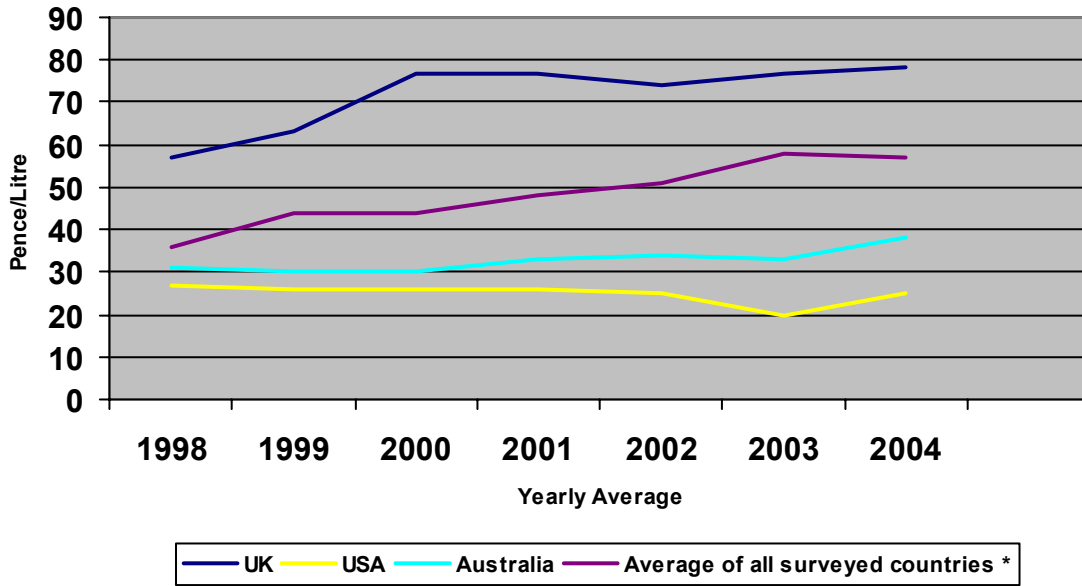
Source: See-Search.com; BP Australia

Once again, there is nothing remarkable or disturbing about fuel price fluctuations in Australia. Indeed, fuel price fluctuations in Australia could be considered relatively stable vis-à-vis other Western developed countries.

U.S. should have little to complain about and it is the U.K. which should have cause for concern.

Indeed, taking the average price trends for all the above countries compared to say the U.S. U.K. and Australia tells an interesting story.

## Fuel Price Trends – Survey of Selected Countries vs. Average of All Selected Countries



\* All selected countries are those countries in previous chart.

Source: See-Search; BP Australia; L21 Analysis

There has been a general increase over the past six months in the U.S., U.K. and Australia although this same time period has seen decreases in most of Europe. Nevertheless, the situation in Australia is not unusual.