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In Europe, 2 Sides to Weak Dollar

By JOHN TAGLIABUE

PARIS, June 9 — With the dollar looking so anemic, a lot of European companies, particularly those that depend on exports beyond the euro zone, have been moaning lately. But some, notably in retailing, have been groaning all the way to the bank.

The exporters moan because the products they manufacture in Europe, where they pay for labor and materials in euros, are sold in places like the United States and are paid for with dollars. As the dollar falls, so do their revenues relative to their costs, and these companies must compress their profit margins to keep their products from being priced out of the market.

But for European retailers, the exporter's curse becomes a blessing. Many leading companies, like Puma in sporting goods and Hennes & Mauritz in apparel, have their goods made in Asia or Latin America and pay for them in dollars, and then sell them mostly in Europe for euros. Every penny the euro rises against the dollar means a penny in the bank for these retailers when they translate the figures into euros.

"Over all, it is extremely positive," said Anne Putz, a spokeswoman for Adidas-Salomon of Germany, the No. 2 sports shoe retailer, after [Nike](#). Adidas manufactures 95 percent of its shoes in Asia and pays for them in dollars; the materials for other goods that it makes elsewhere, like apparel and



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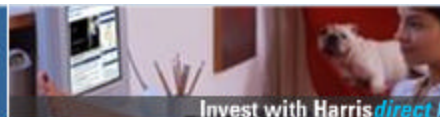
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In Europe, 2 Sides to Weak Dollar

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Mr. Fritsch, echoing other economists, said the weak dollar could also prompt European companies to improve their efficiency and productivity over the medium to long term to offset the disadvantages of having costs denominated in euros. "Of course, when the adjustment comes so quickly," he said, "it generates friction."

For some European companies, the friction has already turned to high heat. In Italy, for instance, clusters of manufacturers that make goods like shoes, terra-cotta tiles or eyeglass frames and whose low prices and styling have made them market leaders are wincing over mounting imports from East Asian countries like China.

From January to April, Europe's imports from China swelled by almost 50 percent, to 16.3 billion euros, as everything from shoes to textiles to auto parts, suddenly made cheaper by the dollar's drop, flooded Europe. The German financial daily Handelsblatt wrote recently of "fear of a trade war between Brussels and Beijing."

Gustav-Adolf Horn, an economist at the German Institute for Economic Research in Berlin, said that despite the benefits for retailers, the liabilities of a weak dollar far outweighed the overall benefits for Europe. "What we do is draw a balance," he said. "And over all, the balance is definitely negative."

He acknowledged that the benefits of a robust retail sector seeped through the rest of the economy in the form of lower prices and interest rates. "To some extent, that will be passed on, though not fast enough," he said.



Photographs by Bloomberg News
 A weak dollar has translated into gains for retailers like the French store chain Printemps, a major importer of Asian products bought in dollars and sold in euros. Adidas has 95 percent of its footwear made in Asia.

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Europe, Mr. Horn said, could absorb a drop in the dollar's value of up to 10 percent without suffering seriously. "Beyond that," he said, "it begins to affect gross domestic product and growth."

In the meantime though, European retailers are enjoying the ride.

In France, Aigle, a retailer specializing in sportswear and boots, posted revenue last year of 128 million euros, 85 percent of it from the euro zone. Aigle still makes its boots in France, but nearly everything else it sells is made in Asia. Not surprisingly, Aigle's share price has soared by almost 45 percent since January.

Aigle's finance director, Paul Soreau, was asked in a recent interview with the French daily Liberation just how big the benefits were for Aigle's bottom line.

Mr. Soreau, with evident understatement, replied: "The impact is important."

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sporting equipment, come from Asia, too, Ms. Putz said.

Adidas has, understandably, been preening. In the first quarter, net income rose 19 percent, to \$51 million; its gross margin was 42.5 percent. Herbert Hainer, the chief executive, told analysts in a conference call in April that the European market, where Adidas generates almost half its revenue, was the "star of the quarter." Adidas executives say they expect the second half of the year will be even better.

In France, the chief executive of Pinault-Printemps-Redoute, Serge Weinberg, said the weak dollar had largely been a help to the company, one of France's largest retailers. The [Gucci](#) luxury goods group, majority-owned by Pinault, has been squeezed in the United States, where it sells European-made products for dollars, but Pinault's European retailing operations, like the big French department store chain Printemps, are major importers of Asian products like textiles bought in dollars.

"For a product X that cost them \$100 a few months ago, it's costing them \$82 now," said Lee Shafkowitz, a retailing consultant and president of Aeros, a New York company that trades in luxury goods. "They've got an 18 percent jump in the gross margin right there. They're making a killing."

Of course, the more sales these European retailers get outside the 12 nations that share the euro currency, and especially the more they sell in the United States, the more they forfeit the benefits of a weak dollar. One victim of this reverse calculation has been Richemont, the Swiss company that ranks second worldwide in luxury goods sales, behind LVMH Moët Hennessy Louis Vuitton of France. Richemont, best known for Cartier and Piaget jewelry and watches and Montblanc pens, recently reported a sharp fall in operating income in the fiscal year ended March 31, though its sales had fallen only 5 percent. Shifting exchange rates were a major part of the reason: Richemont, based in Geneva, pays its bills mainly in Swiss francs and euros, but more than half its revenue comes from the United States and Asia.

Yet even European retailers with sizable exposure in the United States have learned to defend themselves. For example, Adidas, which generates about one-third of its revenue in North America, has followed the path of many European companies that use financial hedges to immunize themselves from currency fluctuations. Indeed, Adidas's chief financial officer, Robin J. Stalker, told analysts recently that the company's bets on a weak dollar in the currency markets were a major help to Adidas.

"The biggest potential for us in the whole currency issue is the upside that we have through our hedging contracts," he said. The benefits, he added, would come "definitely in the last couple of quarters of this year."

So why the voices of gloom from Europe, where pressure has been strong for a strengthened dollar?

"The companies that suffer from a weak dollar are those that speak more loudly in public than those that profit from it," said Carsten Fritsch, a currency strategist at Commerzbank in Frankfurt. Mr. Fritsch said the weak dollar had not only benefited

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European retailers that buy goods in Asia, but also helped keep retail prices down generally in Europe, leaving room for lower interest rates and higher consumption.

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