Europe Offers More Opportunity than Meets the Eye

Since the global recession began in 2008, Europe has struggled. For example, last year the European Union (EU) which is comprised of 27 countries with a consumer base of approximately 500 million, registered -0.2 percent growth. Although its economy has improved, it remains vulnerable. Nonetheless, there is a considerable upside not reflected in these figures.

Economic Growth Is One Factor of Many

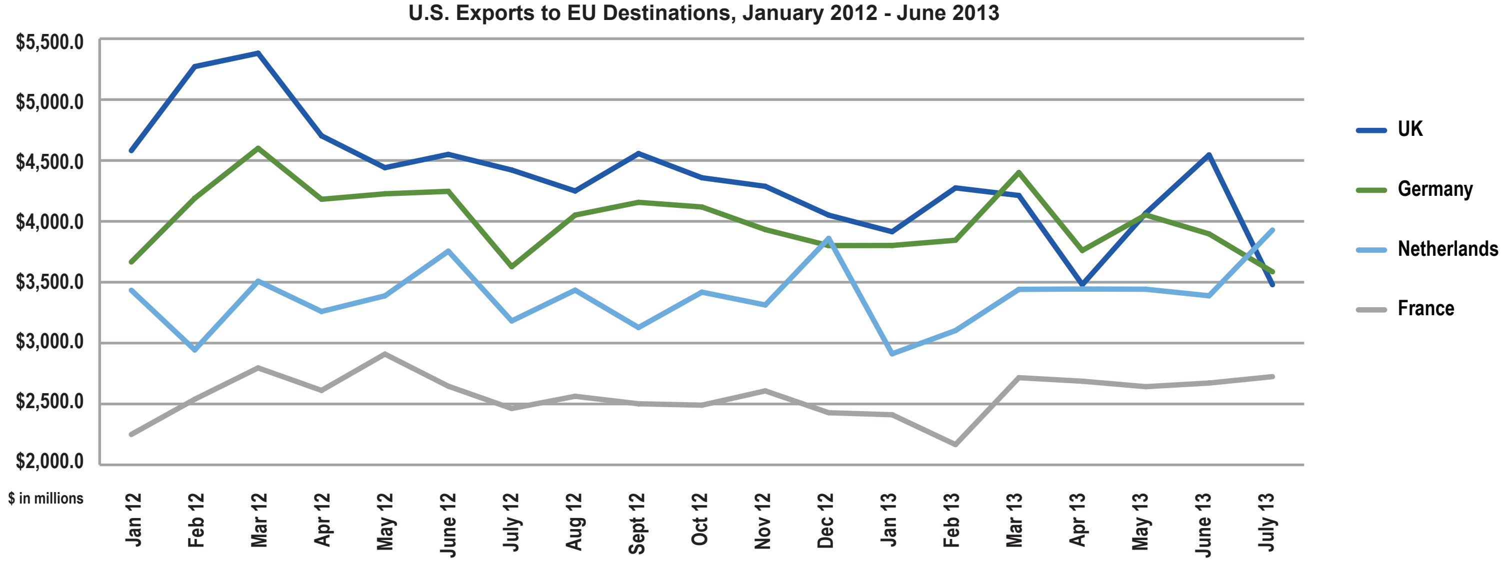
According to the OECD, an independent organization that promotes policies to improve global economic prosperity, the eurozone's gross domestic product (GDP) growth improved in the second quarter of 2013, rising from a period of exceptional weakness at the end of 2012 and first quarter of 2013. This ended six quarters of contraction.

Although current economic growth appears positive, the eurozone, which is comprised of 17 EU country members and 332 million citizens which use the euro as their official currency, remains vulnerable. But when determining the overall strength of a region or country, it's important to consider other factors.

For example, last year Europe purchased more than 21 percent of America's world exports. This is significant, especially since the Pacific Rim countries, which registered considerably better economic growth, only purchased slightly more.

In 2012, the EU imported $329 billion worth of American goods. Broken down, the United Kingdom, with $54.8 billion, was Europe's largest importer of U.S. merchandise. The UK was followed by Germany, at $48.8 billion; The Netherlands, at $40.7 billion; France, at $30.8 billion; Belgium, at $29.4 billion; and Switzerland, at $26.2 billion, U.S. Census Bureau data indicates.

U.S. Exports to EU Destinations, January 2012 - June 2013



Source: Department of Commerce

These six nations also are in the United States' list of top 15 world export markets. This has created tremendous opportunities for American companies. And these figures do not include U.S. service exports to Europe, which reached $163.3 billion in 2011, according to the latest data available from the Bureau of Economic Analysis.

Many companies understand the opportunities Europe continues to offer. For example, as stated by Mark Arend, editor-in-chief of Atlanta-based *Site Selection* magazine, within the last two years, Nestlé, the Switzerland-based nutrition and food services company, invested in new facilities in France, Germany, Spain, Switzerland and three in the UK. Last May, Nestlé began construction on a new factory that represents the company's largest-ever investment in Germany, according to Arend.

Reported in *Site Selection*, Nestlé Chief Executive Paul Bulcke said, "In spite of the difficult economic environment, we believe in Europe's strength. We are convinced that growth is possible. This is why we are not only investing right now, but continuously, in the European market."

What Do European Consumers Want?

By 2015, the median age in Europe will be 41.3, according to the United Nations. This means half the continent's population will be older and half will be younger than this age. Considering the 2015 median age is projected at 37.7 in North America, 30.7 in Asia, and 29.3 in Latin America, Europe's median age is relatively high.

Why are these numbers important? By studying demographics, including median age, a company can identify the fastest-growing age groups — an indicator of consumer needs, habits and tastes.

According to Harry S. Dent, Jr., an author and expert on demographic trends, over the last decade Americans entered the workforce, on average, at age 19, got married at age 25.5, had their first children two years later, and purchased their first homes at age 34. They typically traded up to the largest homes they would own by age 44, and fully furnished them by age 46.5.

Although the patterns and associated spending habits Dent observed may differ in other countries, based on a company's product selection, it can help determine which markets to pursue.

Mutual Dependence

The United States and Europe are somewhat dependent on each other. For example, on a cumulative basis, in 2012 Europe was the source of 71 percent of inbound U.S. foreign direct investment, according to the Bureau of Economic Analysis. Interestingly, on a cumulative basis ending in 2012, nearly 56 percent of outbound U.S. foreign direct investment was directed to Europe. The top recipient was The Netherlands, followed by the United Kingdom, Luxembourg, and Ireland.

As noted above, last year Europe was the destination of more than 21 percent of American merchandise exports. In turn, 20 percent of U.S. imports originated in Europe. In comparison, the U.S. trade deficit with Europe is 40 percent the size of the U.S. trade deficit with China.

For many U.S. companies interested in expanding into Europe through trade or investment, an important consideration is how well each target country has adapted to globalization. This factor is very important because it provides insight into a country's level of competitiveness and future economic success.

Thus, this remains an underlying issue with many EU members, especially those in southern Europe which have been very much affected by the European debt crisis — including Greece, Spain and Italy — and have not adapted as well to globalization as northern European countries. Although this might preclude certain opportunities, it opens up others.

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