Transantic Business and Investment Council (TBIC) Quarterly:
Transatlantic Foreign Direct Investment Analysis & Trends

1st Quarter 2019

[Data for Q3 2018]

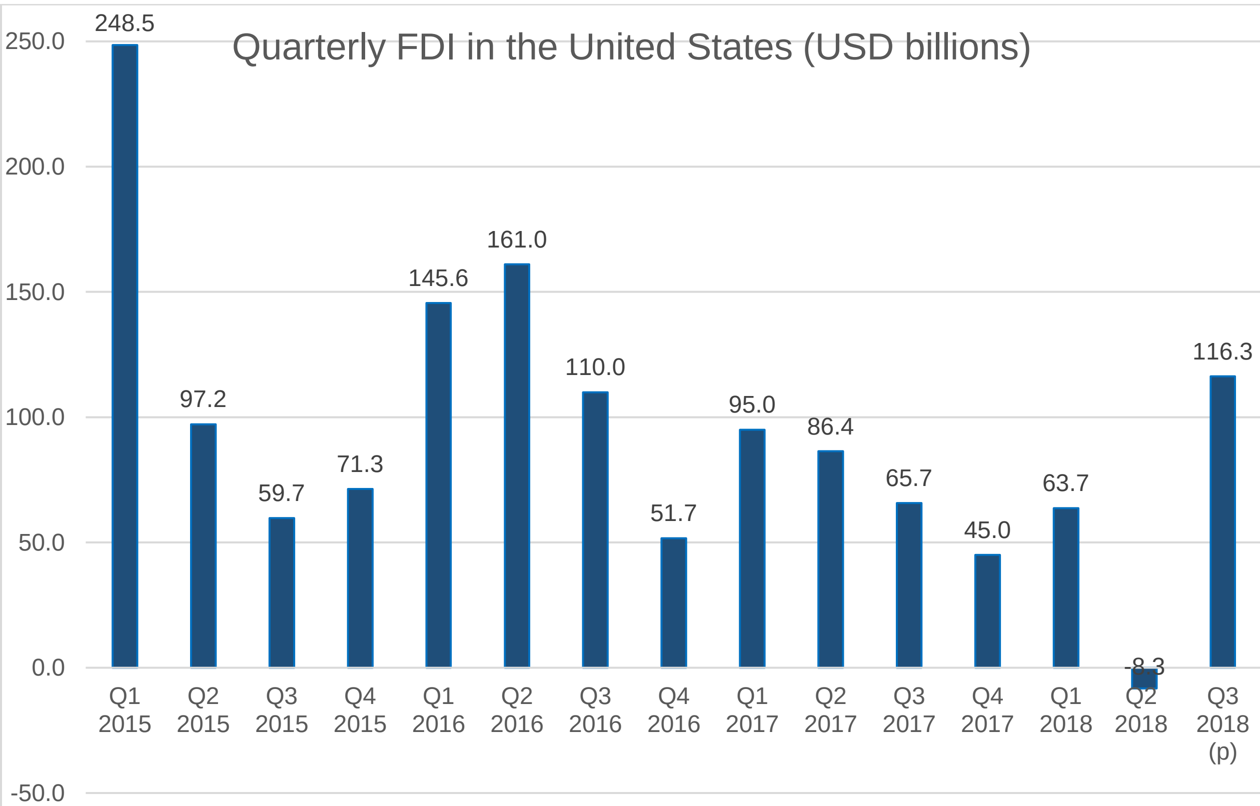
The Transatlantic Business and Investment Council (TBIC) (*formerly European American Investment Council, EAIC*) is the official European representative of selected counties, cities and chambers of commerce from over 30 U.S. States. It is our mission to promote transatlantic trade and investment. To that end, the TBIC bridges the gap between Economic Development Organizations (EDOs) and European investors looking to enter or expand in the U.S. market.

In this edition of our Quarterly, we analyze data for the third quarter of 2018, as recently published by the U.S. Bureau of Economic Analysis (BEA). As regards overall net direct investment into the United States (including equity & debt instruments), the third quarter of 2018 saw a recovery from an overall disinvestment of USD 8 billion in Q2 2018, which was due to an unusually high activity in mergers and acquisitions. In Q3 2018, European FDI into the United States amounted to USD 116.3 billion – the highest number since the second quarter of 2016, a record setting year. European FDI, as measured by our three key markets (Germany, the United Kingdom and Switzerland), fell in comparison to the first two quarters of 2018. We also provide up to date FDI data for the NAICS-based industry segments of Food, Machinery and Transportation, as well as a closer look at the Italian economy in our spotlight article.

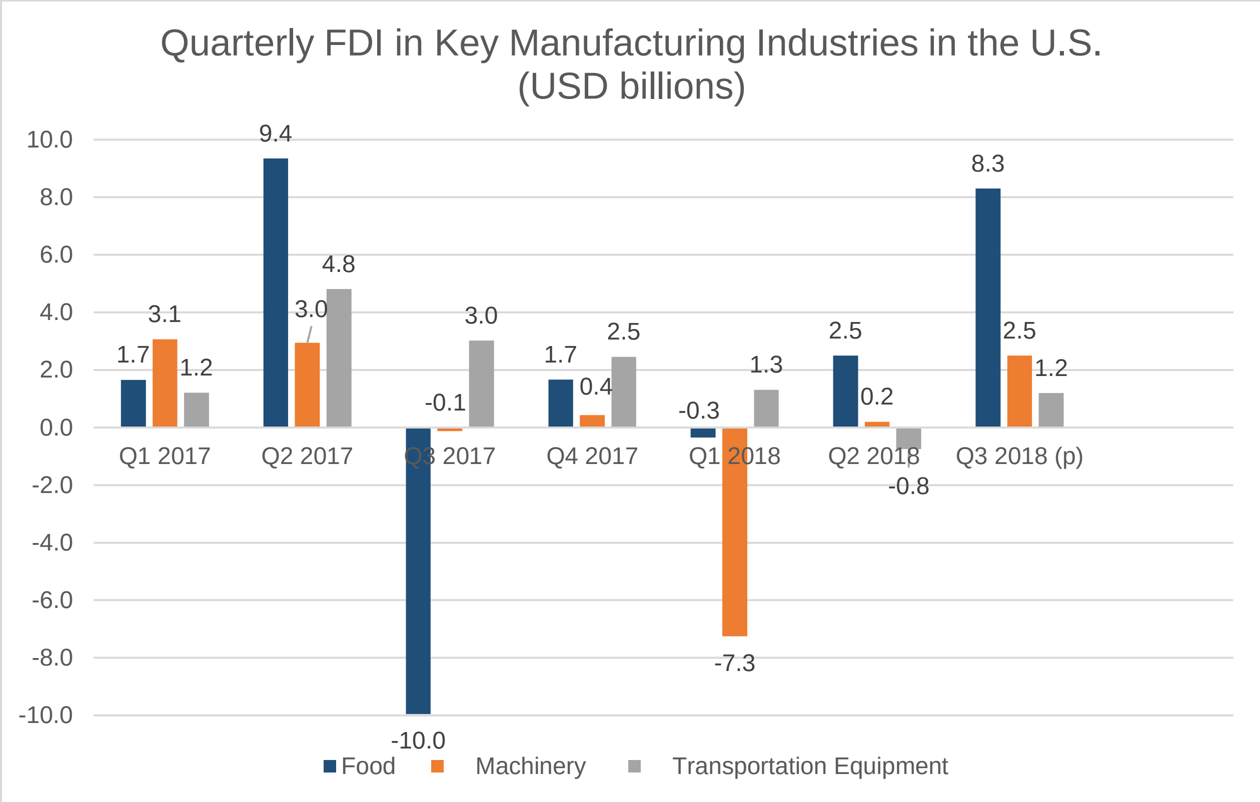
In this analysis, the TBIC corroborates relevant country data with its own experience of working at the frontier of transatlantic investments: the TBIC regularly visits key markets in Europe that have become drivers of FDI in the United States as part of Delegation Trips offered exclusively to members. These trips feature meetings with decision-makers from companies looking to invest in the United States, as well as key multipliers from diplomatic missions and industry associations. To find out more, please click here.

Foreign Direct Investment in the United States: Key Figures

- In the newly published data for the third quarter 2018, FDI inflows in the second quarter were not revised and still showed a slight divestment (outflow) of USD 8.2 billion.
- The preliminary data for the third quarter of 2018 shows a rebound in FDI flows to the United States with an inflow of USD 116.3 billion. This constitutes the best quarterly numbers for FDI inflows since Q2 2016 – with 2015 and 2016 standing as years of unusually high inflows of foreign direct investment.
- The positive numbers for the third quarter 2018 signal a recovery from the divestment noted in the second quarter, which was largely driven by a large sell-off of equity, as many parent companies have shed their involvement in their U.S. affiliates to third parties. The relatively high numbers for Q3 2018 might also signal a positive trend for the second half of 2018 when it comes to foreign direct investment in the United States, as global FDI has decreased in the first half of 2018 in general, compared to the first half of the year 2017. This is supported by increased numbers of announced greenfield investments, which were up 29% globally in 2018 compared to 2017. Announced greenfield projects, as tracked by UNCTAD, do not influence current FDI numbers, but indicate future business sentiment.*

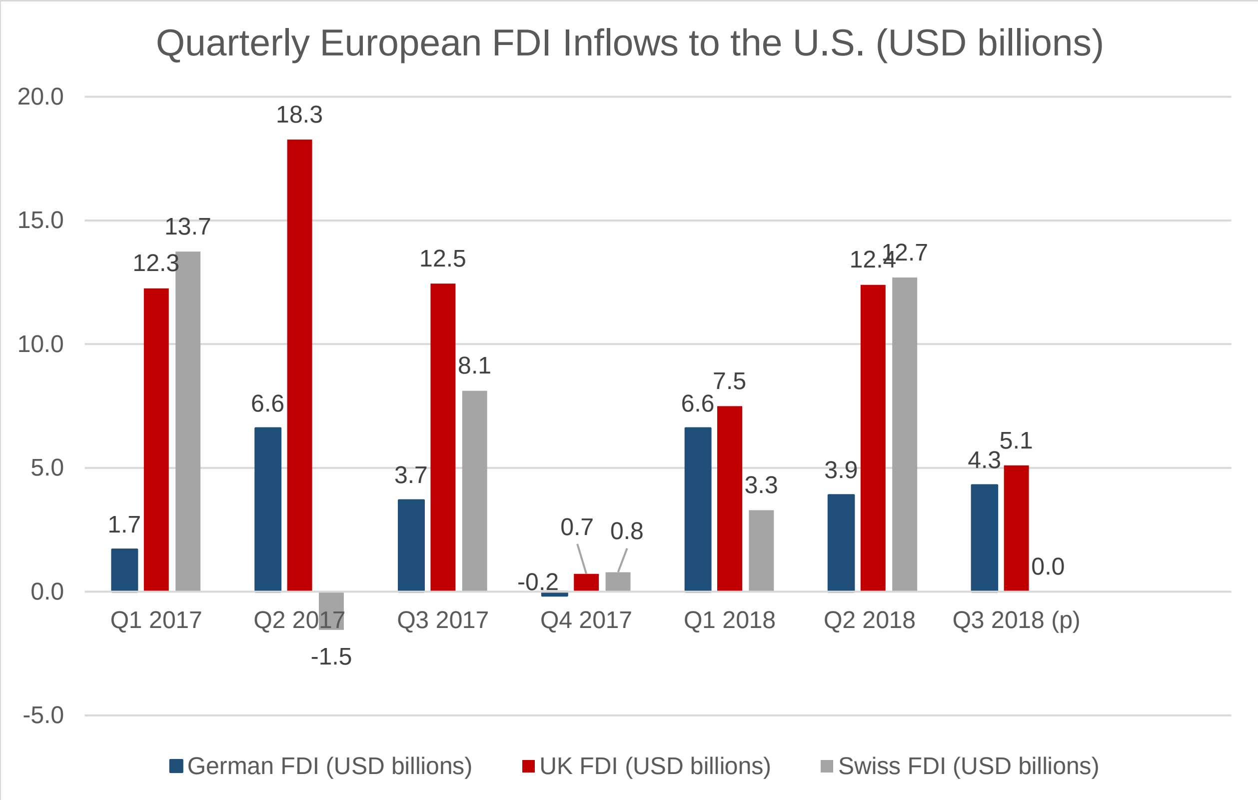


Source: Bureau of Economic Analysis (BEA), U.S. International Transactions: Third Quarter 2018, December 2018.
United Nations Conference on Trade and Development (UNCTAD), Investment Trends Monitor (Issue 31), January 2019.



Source: Bureau of Economic Analysis (BEA), Foreign Direct Investment in the United states: Country and Industry Detail for Financial Transactions, December 2018.

- The FDI numbers for the three key sectors Food, Machinery and Transportation Equipment for the second quarter of 2018 were significantly revised in the newly published data for Q3 2018 by the BEA. Investment in the Food sector was revised upward from USD 170 million to 2.5 billion, making it the strongest quarter since Q2 2017. Machinery investments were slightly revised, from USD 300 million to USD 200 million. For Transportation, the second quarter was revised to reflect a slight divestment of USD 750 million, from a USD 300 million inflow.
- For Q3 2018, investment in the Food Sector in the United States amounted to USD 8.3 billion, topping all other sectors for that quarter and marking the highest numbers since Q2 2017, as mentioned above.
- FDI in the Machinery sector recovered from comparatively low results in both Q1 (divestment of USD 7.3 billion) and Q2 (USD 200 million), with an inflow of USD 2.5 billion.
- Transportation equipment also recovered from a divestment of USD 750 million with an FDI inflow of USD 1.2 billion.



Source: Bureau of Economic Analysis (BEA), Foreign Direct Investment in the United states: Country and Industry Detail for Financial Transactions, December 2018.

Above, we have updated the FDI flow data from our last Quarterly with the most recent data on the third quarter 2018:

- With the newly published data, only the FDI flows from the United Kingdom have been significantly revised: from an inflow of USD 6.4 to 12.4 billion in Q2 2018 – the UK's highest numbers since Q1 2017. Both the numbers for Germany and Switzerland remained unchanged.
- In the third quarter 2018, only Germany slightly increased its FDI flows into the United States with USD 4.3 billion. The inflow from the UK dropped to USD 5.1 billion, the lowest number since Q4 2017. Inflows from Switzerland dropped even further, as the BEA did not publish any data to protect the identity of individual companies' investment, signaling a marginal investment flow in Q3 2018.
- Consequently, overall investment flows from these three source countries were comparatively low in Q3 2018 at USD 9.4 billion, reaching an aggregate FDI for the first three quarters of 2018 to USD 55.8 billion, compared to USD 75.3 billion in the same time span in 2017.

TBIC Country Spotlight: Italy

With a GDP of USD 1.9 trillion in 2017 (current USD; World Bank Data), Italy stands as Europe's fourth largest economy. The Italian economy was hit especially hard during the 2008 financial crisis, with a pre-crisis GDP of roughly USD 2.4 trillion (current USD) in 2007, which has yet to be reached again, and a pre-crisis unemployment rate low of 6.08 percent, which subsequently doubled to 12.6 percent in 2014, after which it has gradually declined until today. Italy's public finances also deteriorated on the back of a stark increase in non-performing loans and overleveraged financial institutions, leading to an increase in public debt from 100 to 130 percent of GDP.

However, thanks to decisive action by the Italian government and European financial institutions, the economy has experienced a recovery in recent years. The stock of non-performing loans has declined markedly from its peak during the crisis, and the banking sector has been stabilized by a mix of resolution and recapitalization. Moreover, based on OECD data, GDP growth has also picked up since its low-point in 2012 at the height of the crisis with a contraction of 2.8 percent, to 1 percent growth in 2017 and a projected growth of 1.4 percent in 2018. Importantly, exports and business investment are recovering and driving growth, as bank lending to non-financial corporations has picked up due to reduced capital requirements and tax incentives introduced by the government. According to ISTAT, the Italian Statistics Agency, gross-fixed investment was the most dynamic component of domestic demand, rising 3.8 percent in 2017, with a marked increase in the share of companies and sectors from both manufacturing and services claiming to have increased their physical capital investments in 2017 compared to 2016. In 2017, growth of added value in the productive sectors of the economy was especially noticeable in industry with an increase of 2.1 percent, compared to 1.5 in services and 0.8 in construction. As a result of these developments, the unemployment rate is projected to fall to 10.8 percent in 2018. While still high, the number is close to the historical average of 9 percent, which is a result of the large discrepancy in employment and industrial output between Northern and Southern Italy – a significant structural factor not related to the crisis, as the unemployment rate can be as low as 7.4 percent in the Northern Piedmont region, and as high as 20 percent in the South. The government has repeatedly introduced measures to alleviate the industrial attractiveness of the South, most recently with measures including decentralized wage-bargaining. In the period of 2015-2016, GDP growth in the South was positive for the first time in seven years.

Exports in particular are benefiting from a synchronous European recovery. In 2017, the growth of exports of goods and services in volume outpaced import growth by 5.4 percent versus 5.3 percent. Italy's biggest export market in 2016 was Germany, with a share of 12.64 percent of total exports, according to World Bank data. Following were France with 10.53 percent and the U.S. a close third with 9.77 percent. Italy's most important export categories were consumer goods (42%), capital goods (32%), and machinery and electrical equipment (26%). The emphasis on consumer goods reflects the dominant position of the automotive, food-processing and textile industries in the Italian economy. As regards imports, Germany again loomed large in 2016 with 16.26 percent import share, followed by France with 8.9 percent and China with 7.46 percent.

Main imports consist of consumer goods (37.12%), intermediate goods (27.08%) and capital goods (21.7%), which reflects the need for Italy to import many raw materials and inputs.

Italy is at the forefront of European manufacturing, with strategic sectors including machinery, foodstuffs, automotive and pharmaceuticals. Manufacturing accounts for roughly 25% of Italy's GDP. As indicated above, most manufacturing companies are clustered in the North of Italy, especially so in the Piedmont and Lombardy regions. For example, Italy's automotive industry is primarily concentrated around Turin (Piedmont), with 50 percent, or 2,600 companies accounting for 170,000 employees, established there. In 2016, according to data published by ISTAT, Italian suppliers exported products worth USD 20.9 billion, with the United States the 4^{th} largest export market for automotive component manufactures. The food industry in Italy is among one of the most important sectors, which employed around 385,000 people and generated a turnover of USD 155.4 billion in 2016, including through robust export sales driven by the strong reputation of the "Made in Italy" label.

According to SelectUSA data, the total stock of Italian Foreign Direct Investment (FDI) in the United States amounted to USD 48.6 billion in 2016. Over the years, Italy's FDI position in the U.S. expanded significantly, with USD 34 billion in 2012 to USD 49 billion in 2016. As with overall industrial activity and exports, the most significant industries for FDI (by number of projects) are: textiles, industrial machinery, consumer products, auto components, metals, and alternative energy. Overall, Italian FDI supported 75,300 jobs, contributed an investment of USD 179 million to R&D in the U.S., and expanded U.S. exports by USD 1.4 billion.

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