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

1st Quarter 2023

[Data for Q3 2022]

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

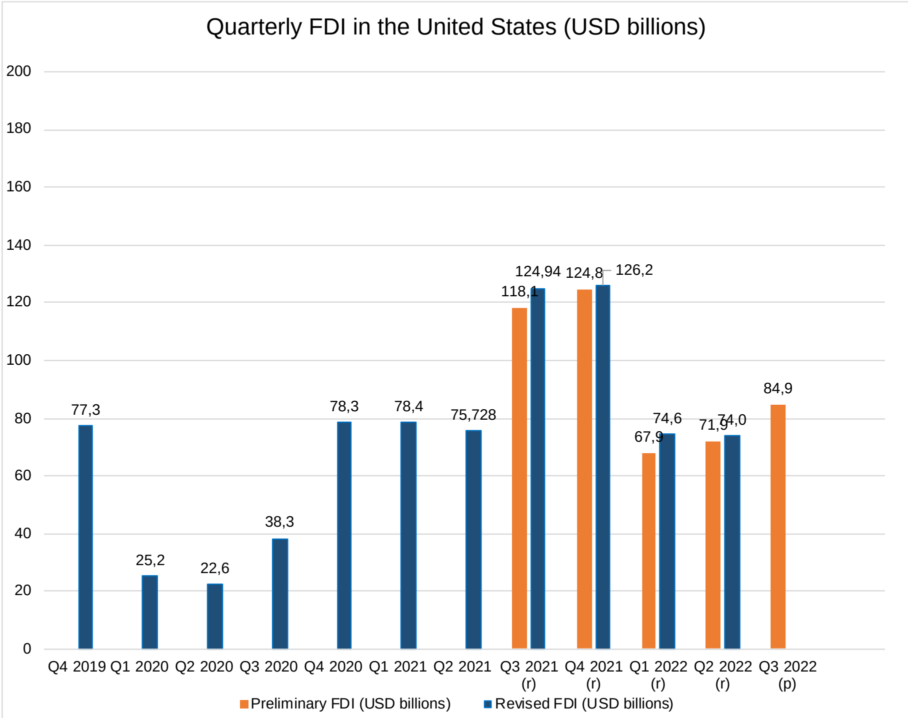
This latest issue of our quarterly features an analysis of the newly published preliminary (p) data for Q3 2022 and partially revised data (r) for Q2 2022, as recently released by the U.S. Bureau of Economic Analysis (BEA). With $84.8 billion worth of investment, third quarter FDI inflows were significantly stronger than the inflows of Q2 2022, which, according to the latest revised figures, came up to $74.0 billion. The majority of FDI inflows in the third quarter of this year went into manufacturing activities ($35.6 billion), followed by other industries ($24.1 billion) and wholesale trade ($14.8billion).

Within manufacturing, our focus sectors food and machinery experienced significantly increased inflows of FDI in the third quarter compared to Q2 whereas investment inflows in the transportation equipment sector fell in Q3, bringing the sector to contraction. Investment in the food sector amounted to $2.7 billion, an increase of approximately $2.3 billion from the previous quarter. Investment in the machinery sector reached a high in our table of $6.9 billion (+ $6.2 billion in Q2 2022), which represents a significant increase compared to Q1 (- $100 million) and Q4 2021 ($3.5 billion) representing a rebound in the sector. Preliminary numbers for the transportation equipment sector suggest a decline in inflows of approximately $1 billion from the second to the third quarter of this year.

This edition includes a time series focusing on Austrian foreign direct investment into the United States. Austria's stock of FDI in the United States amounted to $16.2 billion in 2021. While the overall stock is comparatively small when considering the $636.5 billion stock invested by Germany to date, Austria comes in ninth in total foreign direct investment into the United States, despite its small population of 8.9 million. Austria's strengths lie in its high quality of life, highly skilled labor force, and its investments in digital and scientific research. Thanks to these advantages, Austria is considered by many outside investors to be the prime location for establishing a foothold in Central and Eastern Europe.

This edition also includes our spotlight analysis of the Inflation Reduction Act, which is proving highly relevant in attracting FDI into America's renewables sector. This cornerstone piece of legislation is likely to feature front-and-center in discussions with European companies as a selling point for entry into the US market. As this trend of heightened FDI into American renewables continues in 2023, it is important that economic developers are sufficiently briefed on what this new landscape looks like and what the IRA's incentives may be able to offer European companies who find themselves facing heightened energy prices back home.

Foreign Direct Investment in the United States: Key Figures



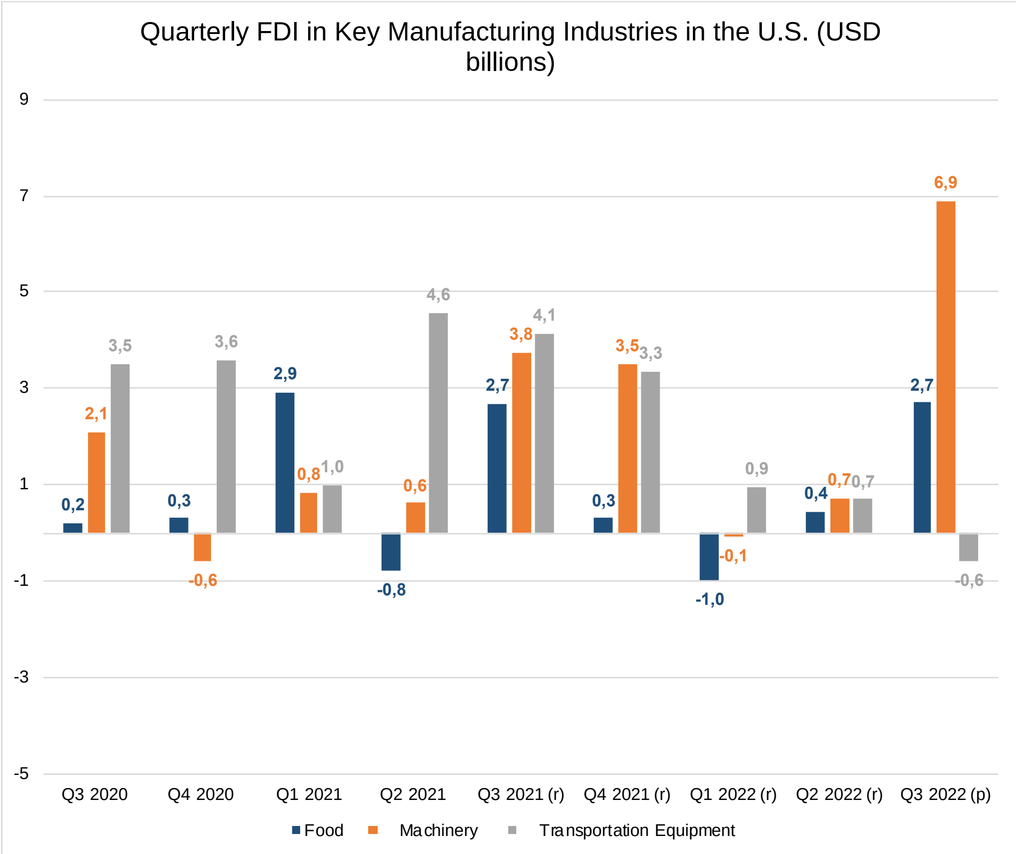
Source: Bureau of Economic Analysis (BEA), U.S. International Transactions, Third Quarter 2022, December 2022.

In the recently published data of the Bureau of Economic Analysis, the FDI inflows for the second quarter of 2022 were revised upward from $71.9 to $74.0 billion.

Preliminary data for the Third Quarter of 2022 projects a volume of inward investment of $84.8 billion, an increase of over $10 Billion, and the highest projection for 2022. This is still lower however, than in the same period last year, namely Quarter Four of 2021, at which point the volume of inward investment into the US stood 33% higher, at $126.2 Billion. FDI inflows appear to be on an upward trajectory this quarter following the plateau at around $74 Billion in the first two quarters of 2022.

According to FDI intelligence, America's renewable energy sector is set to continue its growth trajectory in 2023, attracting even more investment than in years past thanks to the newly passed Inflation Reduction Act, an analysis of which features in this Newsletter. The Act includes $369 Billion in incentives for renewable energy projects in multiple industry sectors including wind, solar, glass, and household appliances. Importantly, the Act also includes additional incentives for the domestic production of Electric Vehicles and batteries, which is driving American FDI potential in this growing sector, especially from Europe and Asia.

U.S. FDI Flows by Key Industry Sector



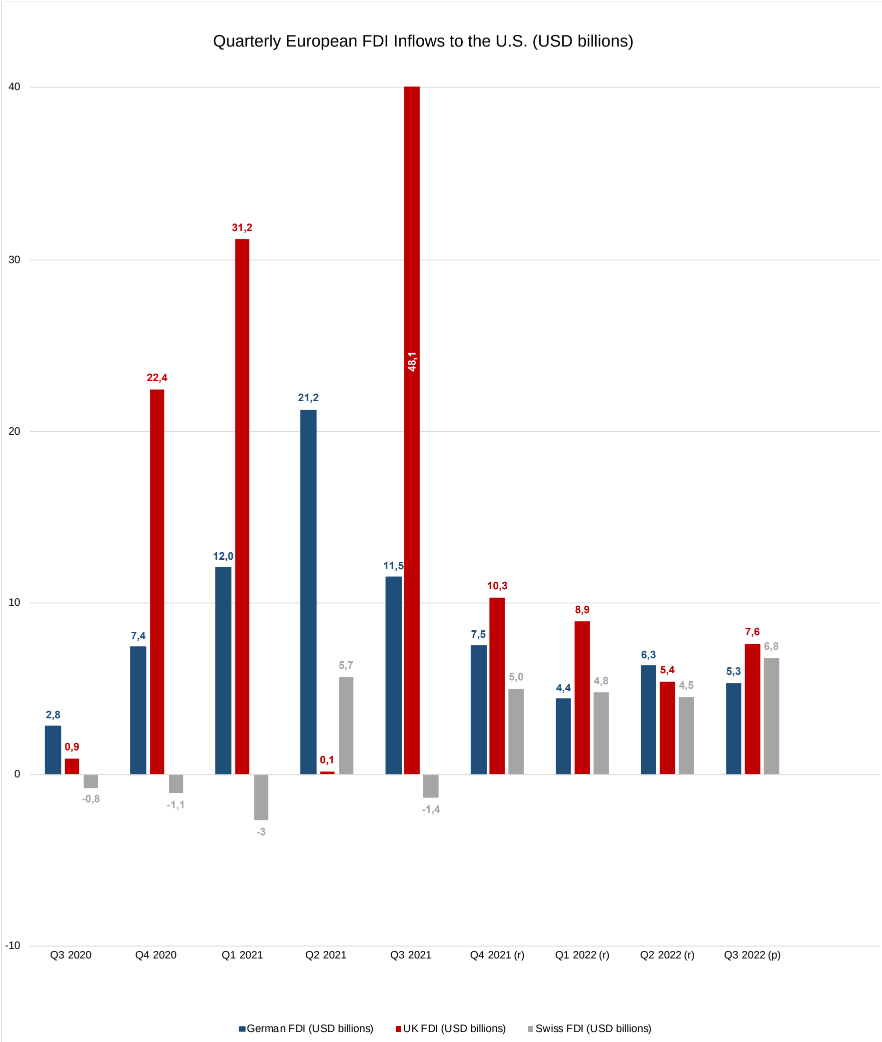
Source: Bureau of Economic Analysis (BEA), Foreign Direct Investment in the United States: Country and Industry Detail for Financial Transactions, December 2022.

The newly released BEA preliminary data for Q3 2022 shows significant preliminary growth in net FDI flows in the food and machinery sectors compared to Q2 2022. In Q3, investment flows in the food sector were higher by an absolute amount of $2.3 billion compared to the previous quarter while investment flows in the machinery sector rose by $6.2 billion. Transportation equipment investments were $1.1 billion lower than in Q2, having contracted for the first time since 2020.

The machinery sector was the leading industry in terms of absolute numbers, with almost $7.0 billion USD in total investments. This is greater than anything observed in 2021 or 2022.

Investments in the food industry went from contraction during the first quarter of 2022 to modest growth in Q2, and have now reached heightened levels similar to those observed in 2021's Q1 and Q3, both very successful quarters for investment in the industry.

U.S. FDI Inflows by Key European Source Countries



Source: Bureau of Economic Analysis (BEA), Foreign Direct Investment in the United States: Country and Industry Detail for Financial Transactions, December 2022.

Quarterly inflows from Germany, the United Kingdom and Switzerland for Q2 2022 were revised by the BEA. British and German FDI was adjusted downwards from $7.1 to $5.4 billion in the British case, and German FDI was adjusted from $7.9 to $6.3 billion. Swiss FDI figures remained unchanged at $4.5 billion in total investments.

German FDI is expected to fall even further from of $6.3 billion to $5.3 billion this quarter. FDI inflows from Europe's largest economy are thus lower than last Quarter's, but are still higher than Q1 investment levels.

With an estimated $7.6 Billion in investments in Q3 2022, FDI from the United Kingdom appears to be on a slight uptick following a steep decline observed in the previous four quarters. After exceptionally high investment in Q3 2021, preliminary numbers suggest FDI flows from the United Kingdom fell to an estimated $5.4 billion in Q2 2022. This positions the

UK as the potential leader among the three countries in terms of FDI in the US during Q3. Meanwhile, German FDI appears on track to come in last place among the three countries during this quarter.

On a year-to-date basis, the quarterly investment flows in the first half of this year show the United Kingdom continuing to rank first among the three countries with a projected total investment of $21.9 billion in the first nine months, which is to be expected given its outsized role in international finance. Germany and Switzerland are tied for second, each with a projected $16 billion in investment flows during the first nine months of this year.

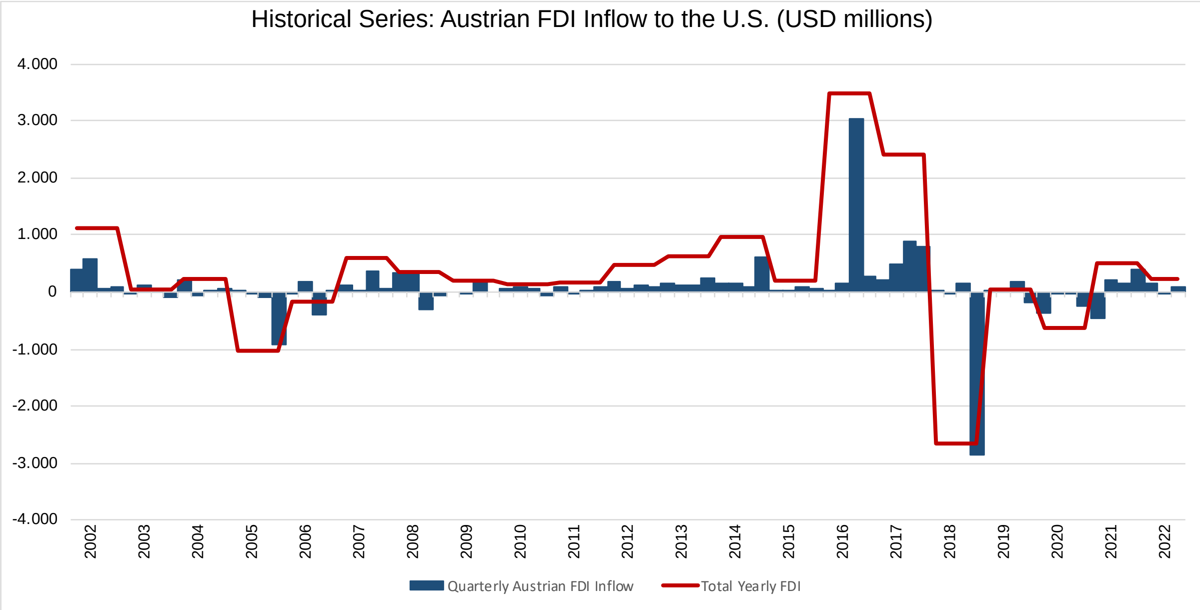
Historical Series – Austrian FDI Inflows to the U.S.

Austrian Foreign Direct Investment into the United States is outsized, given the country's small size compared to those countries which rank ahead of it. In 2019, Austrian FDI accounted for approximately 1.9% of all FDI into the US, ranking the country ninth that year, just behind mainstays like Switzerland, the Netherlands, France, Germany, the United Kingdom, and Japan. In 2021, Austrian FDI into the United States was heavily concentrated in the Primary and Fabricated Metals sector. Industry giants such as AMAG Austria Metall AG hold six offices in the United States and Voestalpine AG owns subsidiaries in six US states. Next to the Metals sector, other manufactured goods including Transportation Equipment feature heavily in terms of Austrian FDI into the United States. Austrian companies such as notable firetruck manufacturer Rosenbauer AG have long established successful operations in the United States, as has KTM Sportmotorcycle GmbH, who have an East and West Coast operation in the United States. These are just a few examples of Austrian companies whose Greenfield Investments contribute to Austria's outsized position in terms of its FDI into the United States.

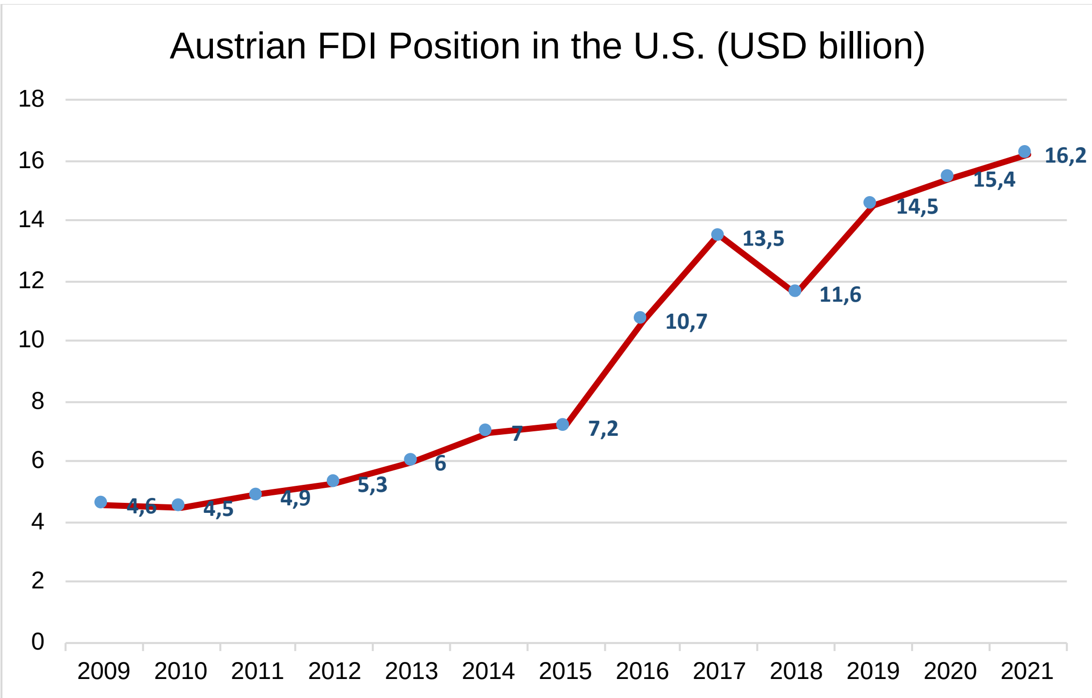
In 2021, The United States was also Austria's third-largest trade partner following Germany and Italy and accounted for approximately 6% of all imports of Austrian goods that year. US exports to Austria have also enjoyed an upward trajectory in recent years, with these mostly coming in the pharmaceuticals, machinery, aircraft, chemicals, medical technology, and electrical equipment industry sectors.

Austria's economy is highly developed and has a population of 8.9 million. Particularly to international investors, the Austrian market is known as a place to gain an attractive foothold in Central and Eastern Europe, particularly due to its many research and innovation advantages and highly skilled workforce, both of which are fueled by its excellent universities, its political stability, and its high quality of life. In recent years, significant investments have been made by the Austrian government in digital innovation and in incubators for start-ups, particularly in Vienna. The aim is to continue Austria's trajectory as a regional leader in technological innovation among increasing competition from neighboring states with lower labor and capital costs.

Much like Germany, SMEs make up the backbone of Austria's economy, and most are highly specialized in their craft and internationally oriented due to the highly globalized nature of the Austrian economy. In our fast-approaching trip to the country in February, the TBIC will organize a visit to leading companies and business executives in Austria to assist them in their expansion to the U.S. market. Contact us for more information.



Source: Bureau of Economic Analysis (BEA), Foreign Direct Investment in the United States: Country and Industry Detail for Financial Transactions, December 2022.



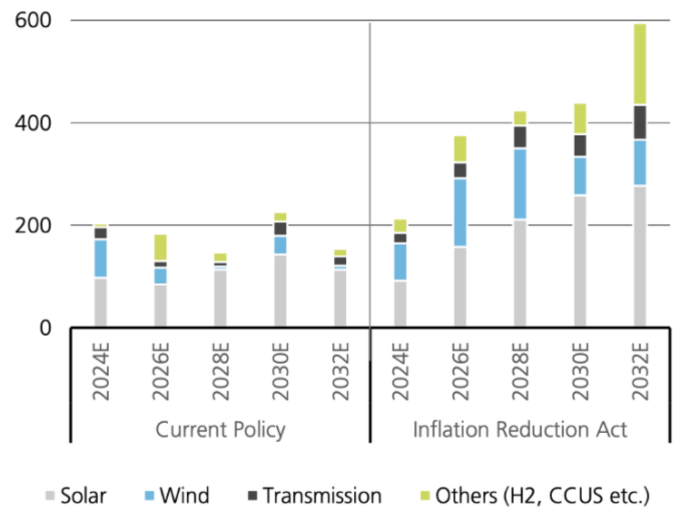
Source: Bureau of Economic Analysis (BEA), Foreign Direct Investment in the United States: Country and Industry Detail for Financial Transactions, December 2022.

Spotlight Article: Inflation Reduction Act of 2022: Potential Outcomes for Foreign Investors

In the Economic Development world recently, you likely cannot help but have seen the buzz surrounding the newly-passed Inflation Reduction Act of 2022. Some of you may even be on track to benefit from it directly in the form of fresh investments in renewables in your communities! Given its continued salience in inbound Foreign Direct Investment attraction for the US and its heightened relevance for our first FDI Trip of 2023 to Austria and Southern Germany, we've decided to feature the Inflation Reduction Act as part of this quarterly newsletter as a briefing on the piece in case you missed it in our October Market Insights piece.

The Inflation Reduction Act of 2022 promises $369 Billion in spending toward energy security and climate change mitigation. Already being hailed as "the most important US clean energy legislation in recent history", the act is expected to double investments into American clean energy infrastructure by 2030, according to Princeton University's ZERO Lab.

Figure 2: Annual investments in clean energy infrastructure to accelerate under the IRA
(annual capital investments, USD billions)



Source: Princeton University REPEAT project, August 2022. H2 = hydrogen, CCUS = carbon capture, usage and sequestration.

Source: Princeton University REPEAT project (August, 2022), as cited in UBS report: Research Blast - US Inflation Reduction Act – August 2022

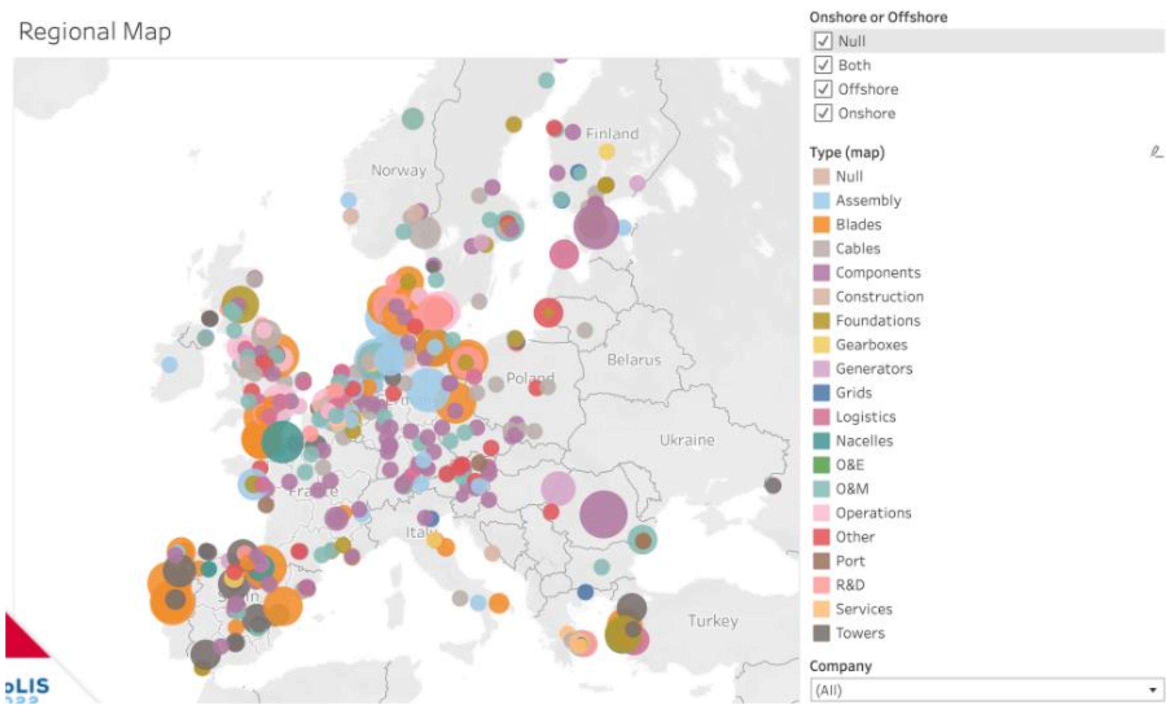
At the core of the act lies the expansion of tax credits for renewable energy projects, electric vehicles and home appliances. In addition to extending the Production Tax Credits (PTC) and Investment Tax Credits (ITC) for the next ten years, tax credits have been expanded to apply to green hydrogen, biofuels, nuclear power, and stand-alone energy storage projects for the first time ever, creating new investment opportunities in sectors and subsectors where they previously did not exist. The bill includes a 70% boost in tax credits for carbon capture, utilization, and sequestration projects as well. Importantly, the act includes an additional 10% tax credit bonus for projects that satisfy requirements for domestically produced contents.

Investors see the Inflation Reduction Act as providing tremendous benefit to manufacturers in the wind, solar, and electric vehicles sectors, as well as the glass, home appliances, and energy-efficient heating and building sectors in the United States. This is based on the Act allowing (1) a greater number of renewables projects to qualify for tax credits, (2) an increase in the overall amount of credits available, and (3) an enshrining of tax credits – both new and pre-existing - for the next ten years.

Wind Energy

Under the IRA, the existing Production Tax Credits (PTC) for wind projects have been extended through 2033, provided projects meet newly specified labor requirements. The IRA also offers an additional 10% in credits for projects that meet heightened domestic-content requirements. A further 10% in tax credits is awarded for projects located in so-called "energy communities", and another 10-20% is available for wind projects which benefit low-income communities.

The European wind industry contributes 36 Billion EUR to the EU's GDP, supports 263,000 jobs, and generates roughly eight billion EUR in exports, according to WindEurope. Currently, Europe's supply chain for the wind industry spans the continent with much of the high value-added manufacturing taking place in central European countries like Germany, Austria, and the Netherlands. With skyrocketing energy prices in Europe due to the ongoing Ukraine conflict, firms may look elsewhere to strategically position portions of their wind supply chain. Policies like the IRA certainly make their decision to invest in a politically stable environment with an already booming wind energy sector like the United States easier. Already, this bolstering of investment incentives is drawing the attention of larger European firms such as Vestas, whose order intake is expected to increased thanks to the IRA's expansion of the PTC and ITC for the next ten years.



An overview of Europe's Wind Energy Supply Chain. Credit: WindEurope, 2022

Solar Energy

The IRA provides similar tax credits for the solar industry. Stand-alone energy storage projects now qualify for a 30% tax credit; pre-existing tax credits for batteries connected to solar projects will be continued under the IRA. Just like wind projects, solar projects also qualify for an additional 10% tax credit adder if they use domestically produced steel and iron in their project, and those projects located in “energy communities” which benefit low-income areas qualify for an additional 20% in total credits. Overall, the IRA offers the potential for solar projects to qualify for a combined 60% in tax credits. Tax credits for the domestic manufacturing of solar panel equipment such as inverters, racking components, etc. have also been expanded.

Europe’s solar energy sector has grown steadily in recent years and is expected to continue doing so in years to come. The solar PV industry in Europe has already created approximately 357,000 jobs, with this number expected to grow to over 1.1 million by 2030. Currently, existing demand for solar energy in Europe is increasing due to high oil and natural gas prices; the EU was able to generate a record 12% of its electricity from solar power this past Summer, avoiding an estimated 29 Billion EUR in costs from would be natural gas imports, according to Ember Climate. With no end in sight to rising conventional energy prices, this demand is expected to continue.

Some European manufacturers of solar PV equipment – in particular batteries – are beginning to take notice of the IRA’s benefits to them, in particular those that sell to the US market already. Fluence, a division of Siemens, and Kontrolmatik from Turkey have already ramped up production of battery cells in the US, with plans for increased manufacturing facilities in the US in the near future.

E-Mobility

Under the IRA, purchasers of electric vehicles can qualify for up to $7,500 in tax credits for the purchase of a new electric vehicle and $4,000 for the purchase of a used EV. However, only electric vehicles assembled in the United States and which (1) meet new critical minerals requirements and (2) the majority percentage of whose battery was produced in North America can qualify. The Act also lifts the cap on the number of US-produced EVs which can qualify for the clean energy credit. Already, the effects of these credits on transatlantic investment are being felt. In September, it was reported that Tesla had changed its battery strategy to favor production in its Austin, TX facility over its facilities in Germany, citing the increased tax breaks it would receive under the IRA.

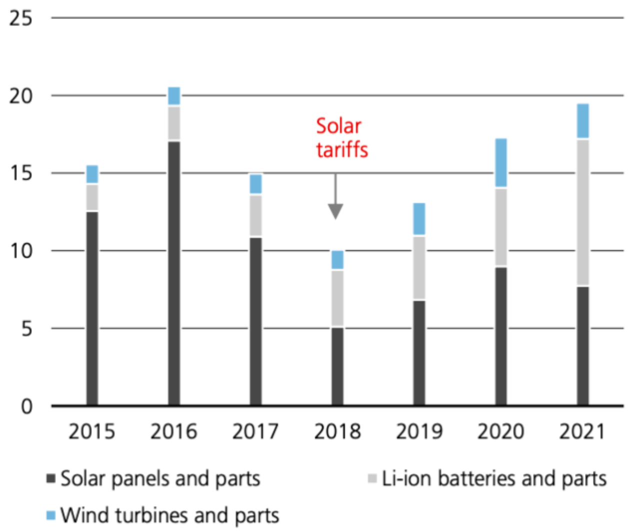
The conditionality of the tax breaks for electric vehicles codified in the IRA are upsetting some EU officials, as Washington’s goal of ramping up EV production in the United States will harm European electric vehicles exports to the US market. For this reason, European automakers who wish to continue selling to the US market may view the IRA as an added incentive to moving parts of their production facilities to the United States.

Home Appliances, Glass, and Energy-Efficient Building & Heating

The IRA also includes added investment incentives for energy-efficient building and heating including producers of glass, energy-efficient home appliances, and heating and cooling systems. American homeowners can now qualify for up to $10,000 in tax credits and rebates for the installation of more energy efficient home appliances and renewables projects such as home solar installation projects. Rebates of up to $14,000 are on offer for each household which installs heat pumps or electric clothes dryers, as well. Glass producers are similarly celebrating the Dynamic Glass Act, a part of the IRA, which includes a 30% tax credit for renewables projects which incorporate Smart Glass technology into their design. The North American flat glass market size could grow to over $12.5 Billion in revenue by 2027, according to Global Market Insights, after factoring in the investment incentives of the IRA. Recently, SageGlass, a subsidiary of the French firm Saint-Gobain, hailed the Inflation Reduction Act as "a true game changer for the industry", having lifted a major "obstacle to large-scale adoption".

These sectors have attained a level of significance in the EU's economy. The EU is the world's single-largest glass producer at around one-third of global production. The glass sector employs over 100,000 people throughout the EU, with Germany producing the most flat glass of any EU country, as of 2020. Sales of heat pumps in Europe grew by 34% to reach an all-time high in 2021 with demand expected to further increase as the continent moves away from dependence upon Russian oil and natural gas.

Figure 4: US imports large amounts of key components for clean energy (USD billions)



Source: United States International Trade Commission, August 2022

Source: United States International Trade Commission, August 2022 as cited in UBS report: Research Blast - US Inflation Reduction Act – August 2022

Trends for transatlantic Foreign Direct Investment

The energy crisis in Europe is currently leading many major European manufacturers to seek out environments with lower energy prices and greater stability as locations to host portions of their supply chains. The United States continues to meet these prerequisites while offering a level of political stability, connectedness to Europe, and incentives programs which many alternative locations cannot match. The Inflation Reduction Act, with its expanded tax credits, is simply one more in a long list of incentives for foreign companies to invest in America's booming renewables sector. Moreover, the domestic content requirements of the IRA make penetrating the American market for European-manufactured electric vehicles and renewables equipment more difficult. With these goods traditionally having been manufactured in Europe and exported to the US, European firms may find themselves more willing to move manufacturing to the US to ensure their continued access to the American consumer market.

It is no secret that European manufacturers have already taken notice of the IRA's potential impact on the investment landscape in the American renewables and CleanTech sectors. With the IRA predicted to increase overall investment in American renewables, electric vehicles, and building and heating components, European investors may find no more appropriate time to expand greenfield projects in the US than now.

On recent TBIC FDI promotion trips, the Inflation Reduction Act has raised eyebrows as a talking point in meetings with European manufacturers who are exploring opportunities in North America. In early February, we will be visiting companies and industry experts throughout Austria and Southern Germany in various sectors including advanced manufacturing and transportation technology. On this trip, recent macroeconomic trends such as the IRA are sure to feature, as it certainly will on other upcoming trips and events this Spring including the Hannover Messe in April and the annual SelectUSA Investment Seminar in May. To learn more about these trips and how the TBIC can generate leads for your community, don't hesitate to get in touch with our team!

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