European American Investment Council (EAIC) Quarterly: Transatlantic Foreign Direct Investment Analysis & Trends

3rd Quarter 2018

[Data for Q1 2018]

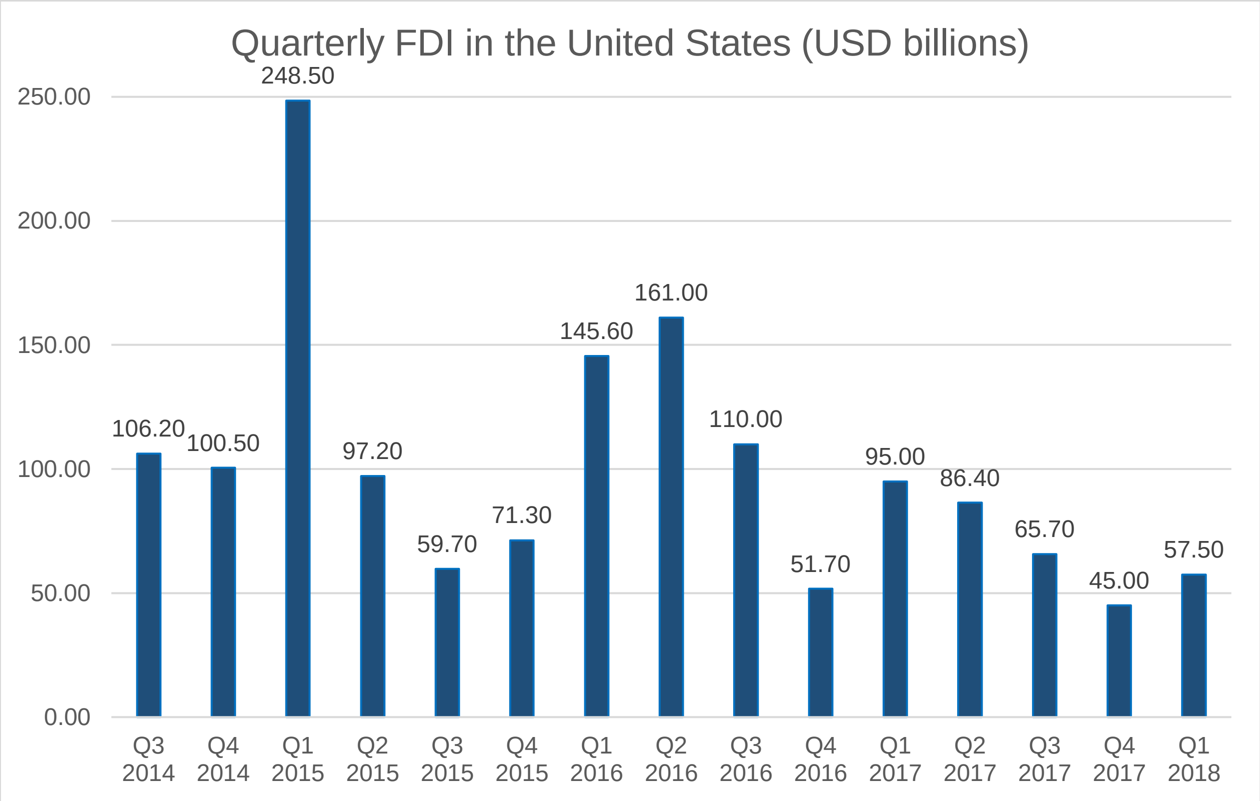
The European American Investment Council (EAIC) is the official European representative of selected counties, cities and chambers of commerce from over 20 U.S. States. It is our mission to promote transatlantic trade and investment. To that end, the EAIC bridges the gap between Economic Development Organizations (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 first quarter of 2018, as recently published by the Bureau of Economic Analysis (BEA). We can see that the regression to historical averages after the boom years for FDI of 2015 and 2016 continues, especially with regard to the important European source countries Germany, the United Kingdom, and Switzerland. The data also reveals heavy fluctuations in the food and machinery sectors, but steady investments in transportation. Moreover, we shed more light on a cutting-edge industry for transatlantic trade and investment: medical devices. The U.S. is the most important export destination for the European medical technology market, which makes up 29 percent of the global market, second only to the United States with roughly 43 percent.

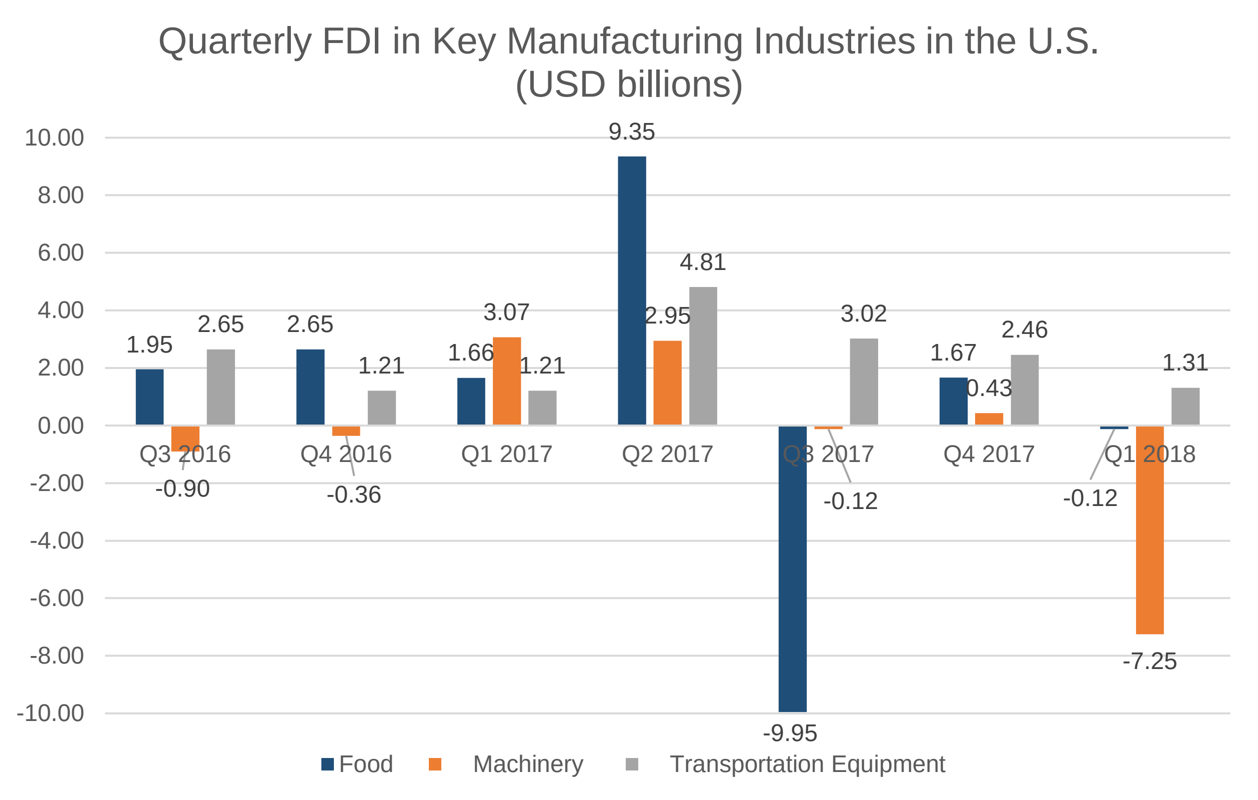
In the Quarterly, the EAIC aspires to combine relevant country data with its own experience of working at the frontier of transatlantic investments: the EAIC regularly visits key markets in Europe that have become drivers of FDI in the United States as part of Delegation Trips offered exclusively to 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 first quarter 2018, FDI inflows in the fourth quarter of 2017 were revised downward from USD 59.9 billion to 45 billion.
- The preliminary data for the first quarter of 2018 shows an increase of 12.57 percent in FDI inflows from the last quarter, which is now up to USD 57.5 billion. Still, the first quarter 2018 accounts for the weakest start to the year for FDI inflows since 2015.
- The return to historical averages mentioned in our last Quarterly was largely driven by the absence of cross-border M&A "mega-deals" that drove up the numbers in 2015 and 2016, according to UNCTAD's World Investment Report (WIR) 2018. However, UNCTAD also notes favorable economic fundamentals, including concerted economic growth in the major developed economies and the recently introduced U.S. tax reform, as factors that will likely lead to higher FDI inflows to the United States in the short- to medium-term. This is especially noteworthy given that fact that announced greenfield FDI projects in the U.S. have actually increased from 2016 to 2017, in contrast to the declining share of other forms of foreign direct investment.*

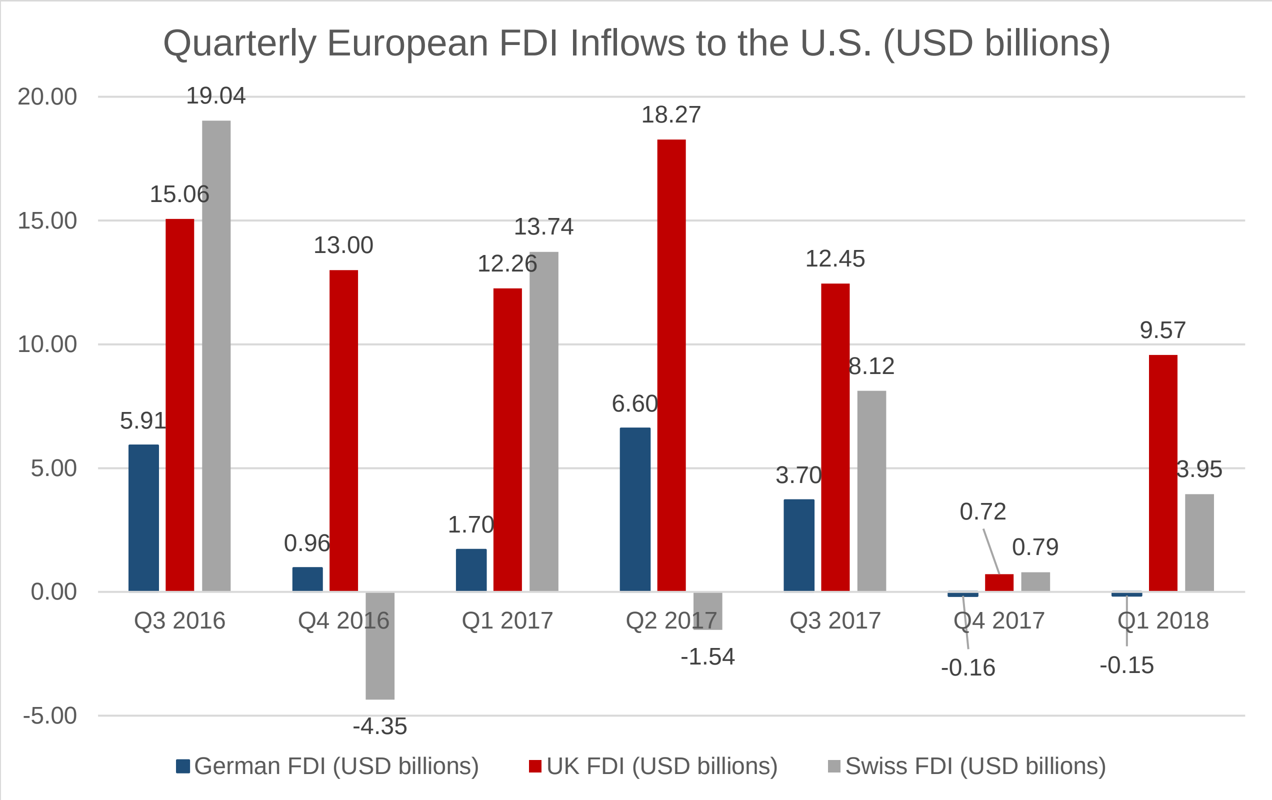


Source: Bureau of Economic Analysis (BEA), U.S. International Transactions: First Quarter 2018, June 2018.
*United Nations Conference on Trade and Development (UNCTAD), World Investment Report 2018, June 2018.



Source: Bureau of Economic Analysis (BEA), U.S. International Transactions: First Quarter 2018, June 2018.

- The numbers for FDI flows for all three sectors were revised downward in the newest publication of the Bureau of Economic Analysis (BEA), for the fourth quarter 2017. After a positive result in the last quarter of 2017, the preliminary data for investment in the Food industry wandered, once again, into negative territory in the first quarter of 2018 (USD -0.12 billion). Even so, it recovered from the third quarter 2017, which amounted to outflows of USD 9.95 billion.
- The numbers for Machinery also sloped downward in 2018, from USD 0.43 billion in the fourth quarter 2017 to USD -7.25 billion in the first quarter 2018. The Machinery sector has not seen such low quarterly levels since the end of 2008, with FDI outflows equal to USD -5.73 billion in the fourth quarter.
- Preliminary FDI inflows in Transportation amounted to USD 1.31 billion in the first quarter 2018 – a slight increase compared to the first quarter of the previous year (USD 1.21 billion). Despite recent policy uncertainty, the outlook for the transportation sector remains positive. Respondents from the aerospace industry (part of the "Transportation Equipment" category) to a questionnaire on investment attitudes in 2018 featured in the WIR 2018 have indicated heightened activity in the year ahead, especially in developed economies, given their focus on high-tech manufacturing.



Source: Bureau of Economic Analysis (BEA), U.S. International Transactions: First Quarter 2018, June 2018.

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

- FDI flows from both Germany and the UK in the fourth quarter 2017 were revised downward, to USD -0.16 billion from 0.7 billion and to USD 0.72 billion from 3.2 billion, respectively. Inflows from Switzerland were revised slightly upward, from USD 0.7 billion to 0.79 billion.
- Nonetheless, in 2018, British investment flows to the U.S. got back to its historical levels, with USD 9.57 billion in the first quarter – nearing its 2017 average of USD 10.93 billion. German and Swiss investment flows, on the other hand, remained comparatively low: USD -0.15 billion and USD 3.95 billion respectively.
- Overall, total FDI from Germany (USD 11.9 billion), the UK (USD 43.69 billion) and Switzerland (USD 21.08 billion) was strong in 2017. Compared to the data for 2015 and 2016, a reversion to historical averages, reflected in the overall U.S. FDI data, is evident with these important source countries.

EAIC Industry Spotlight: Medical Devices

According to Europe's medical technology industry association, "Medical Technology is any technology used to save lives or transform the health of individuals ranging from a wide range of conditions." Thus, any device involved in the diagnosing, monitoring or treating of diseases and conditions is considered a medical technology device. The more than 500,000 technologies currently available range from simple bandages to more high-tech prosthetics and monitoring systems. Medical devices are classified in two groups: medical devices, as defined before, and *in-vitro* medical devices, which perform the same diagnostic and therapeutic functions, but use material taken from the human body as the basis for analysis. Generally, both classes of medical devices are regulated in the European Union (and by the FDA) according to the risk they pose to public health in case of a misidentification or malfunctioning of the device. As of 2017, the EU has adopted new guidelines, increasing the scrutiny of medical devices and further empowering oversight bodies.

Based on manufacturer prices, the European medical technology market is worth €110 billion, which makes up 29 percent of the global market and is second only to the United States, which accounts for roughly 43 percent. In the years after the financial crisis, the European market for medical devices maintained a steady growth rate of an annual average of 4.4 percent, with in-vitro medical technology slowing significantly until 2013, after which the market grew by around 1 percent. Within the European market, Germany stands out as a leader for medical devices, accounting for nearly a third in both market segments. The German medical technology sector is made up of around 13,000 businesses, employing a total of over 200,000 people. Consistent with Germany's strong tradition of SMEs, roughly 90 percent of all businesses have 250 employees or less. Despite their relatively small size, the total revenue of the medical device companies in Germany amounted to €28 billion in 2016 – with an export share of approximately 60 percent. This is indicative of the larger trend of the European medical technology market, as its overall trade surplus with the rest of the world amounted to €17.5 billion, with the United States as its most important export destination.

Given the size of the market, its premiere educational and research institutions, highly developed medical sector and skilled workforce, the United States remains the most attractive market for the high-tech industries and medical technologies in particular. According to data compiled by SelectUSA, the stock of Foreign Direct Investment (FDI) in the United States high-tech sector (including medical devices) amounted to more than US$1.6 trillion in 2016. These highly innovative international companies were responsible for around 10 percent of the value added in the entire high-tech sector and supported 2.1 million jobs. In 2015, the three top European source countries for FDI in the high-tech sector were the United Kingdom (290,000 jobs), Germany (280,000 jobs) and France (180,000). Meanwhile, the Bureau of Economic Analysis (BEA) has reported that the FDI stock in the U.S. "Medical Equipment and Supplies" manufacturing sector, which encompasses most medical devices as defined before, has increased by 45 percent in the period from 2011-2016. According to the Reshoring Initiative's 2017 Annual Report, which tracks returning manufacturing jobs across all industries, the product category of Medical Devices jumped from rank 14th to 9th, largely due to a preference of doctors and practitioners for domestically produced products.

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