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

3rd Quarter 2020

[Data for Q1 2020]

The Transatlantic Business & Investment Council (TBIC) is the official European representative of selected counties, cities and corporations 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 have analyzed the newly published preliminary (p) data for Q1 2020 and revised data (r) for Q4 2019, as recently published by the U.S. Bureau of Economic Analysis (BEA). Direct investment into the United States (including equity & debt instruments) fell quarter-on-quarter from USD 77.3 billion in Q4 2019 (revised) to USD 57.5 billion in Q1 2020. Thus, while the number for Q1 2020 remains approximately 30 percent lower compared to a year prior (USD 82.5 in Q1 2019), it does not seem to yet indicate any large reductions associated with the global economic disruptions due to COVID-19. The Food and Machinery sectors were off to a strong start in 2020, with inflows of USD 4.6 and 5.4 billion respectively, while the Transportation sector showed signs of weakening after previously strong showings with only USD 500 million in Q1 2020. Meanwhile, Germany remained a solid source of investment in the United States with an inflow of USD 4.7 billion. While the United Kingdom marked a net outflow of USD 5.1 billion, the value for Switzerland skyrocketed with USD 17.8 billion. We also provide a more detailed picture on the current health, political and economic situation in these and other European source markets 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 our 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!

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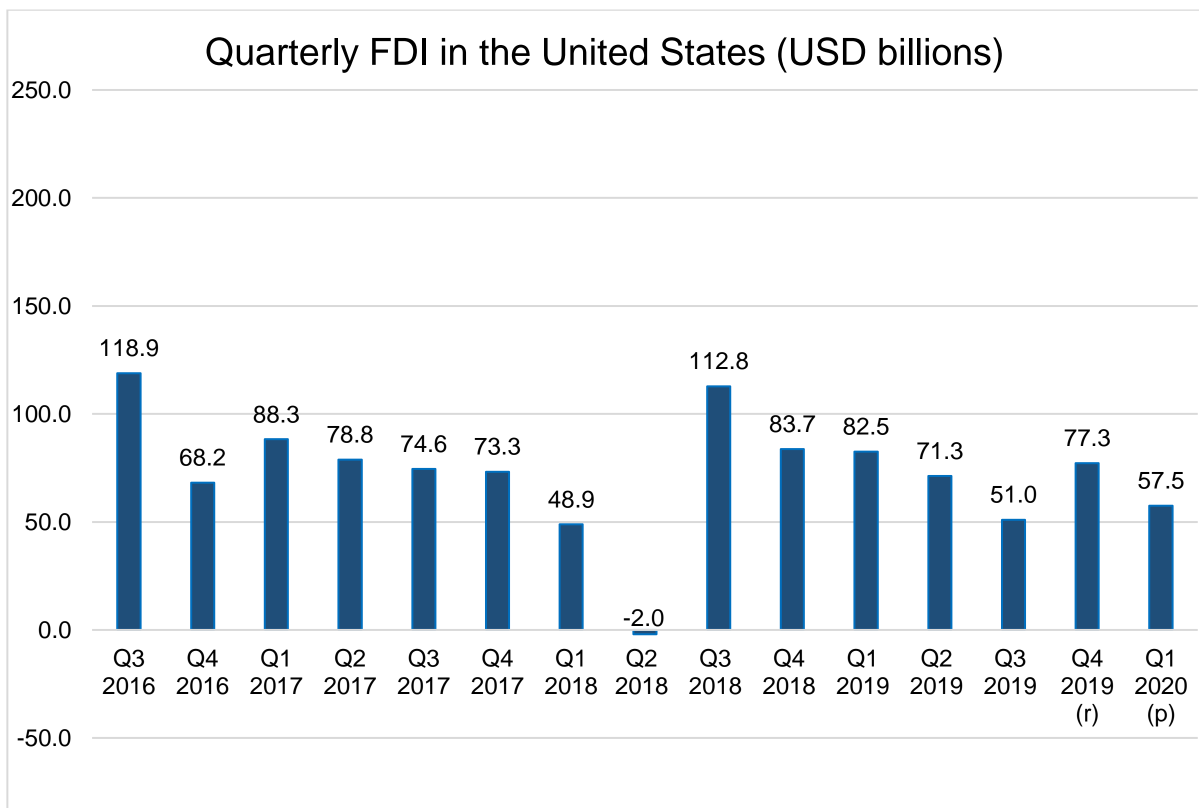
Foreign Direct Investment in the United States: Key Figures

- With the publication of the new FDI data for Q1 2020, the BEA updated its underlying methodology and data collection process, thus slightly revising all statistics. FDI inflows in the fourth quarter of 2019 were marginally revised upwards from USD 68.7 to 77.3 billion. Meanwhile, the data for Q1 2020 showed an inflow of USD 57.5 billion – below the average of USD 70 billion of 2019, but still higher than the low point of Q1 2019 with USD 48.9 billion.
- Thus, FDI inflows in the U.S. in the first quarter of 2020 remained positive – despite the onset of Covid-19 crisis. This largely confirms the importance of the U.S. market for international investment and the notion that many FDI (greenfield) projects are long-term commitments by companies and are consequently not easily foregone on the basis of cyclical developments or exogenous shocks. However, UNCTAD's projects that the average of announced new greenfield projects will be 30 percent lower in 2020 than 2019 still stands.[1] The United States is expected to see an annualized drop in total FDI (not limited to greenfield investments) of between 20 and 35 percent. Significant uncertainty remains as the impact of both the disruptions associated with widespread lockdowns and the overall economic contraction on FDI flows features significant delay.



Source: Bureau of Economic Analysis (BEA), U.S. International Transactions, First Quarter 2020, June 2020.
1 United Nations Conference on Trade and Development (UNCTAD), World Investment Report 2020, June 2020.

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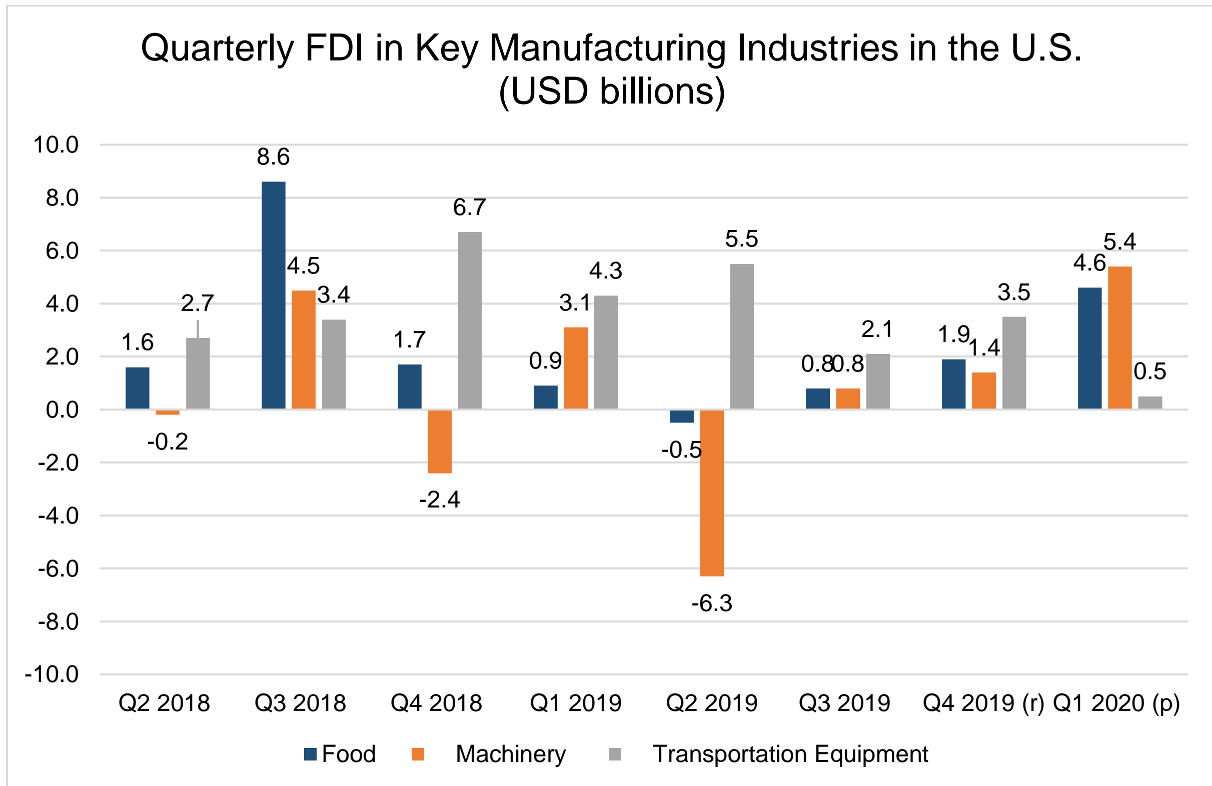

Source: Bureau of Economic Analysis (BEA), Foreign Direct Investment in the United States: Country and Industry Detail for Financial Transactions, June 2020.

- The new dataset for Q1 2020 also contains revised numbers for Q4 2019: while the Food sector remained unchanged at an influx of USD 1.9 billion, the Machinery sector was revised upward from USD 600 million to USD 1.4 billion. The Transportation sector once again accounted for the biggest influx, with a revision from USD 1.1 to 3.5 billion.
- The first quarter of 2020 was off to a strong start for both the Food and Machinery sector, with investment inflows of USD 4.6 and 5.4 billion respectively, marking the strongest quarter for both sectors since Q3 2018.
- Compared to the strong performance of the Food and Machinery sector, the Transportation sector – usually a bedrock of USFDI – has experienced one of its worst quarterly results since Q2 2018 with an inflow of USD 500 million.

Below, we have updated the U.S. FDI flow data for Germany, the United Kingdom and Switzerland from our last Quarterly with the most recent data on the first quarter of 2020:

- Similar to industrial sector FDI data, the numbers for Q4 2019 for source countries were also revised with the newly publicized data for Q1 2020. Here, German FDI remained substantial with an upward revision of an already strong USD 10.9 billion to 12.9 billion. Meanwhile, FDI from the United Kingdom was also revised upward, from an outflow of USD -3.8 billion to an inflow of USD 1.1 billion. Finally, Swiss FDI was revised downward from USD 6.3 billion to USD 5.4 billion.

- The first quarter of 2020 showed a slowdown in German FDI to the United States, which marked its lowest quarter since Q4 2017 with USD 4.7 billion. The FDI from the United Kingdom saw an outflow of USD 5.1 billion, while FDI from Switzerland into the United States skyrocketed with USD 17.8 billion – the largest quarterly inflow in nearly 4 years (Q3 2016 stood at USD 19.3 billion).

Quarterly European FDI Inflows to the U.S. (USD billions)

	German FDI (USD billions)	UK FDI (USD billions)	Swiss FDI (USD billions)
Q3 2018	7.6	(D)	-0.2
Q4 2018	9.6	-17.6	(D)
Q1 2019	11.0	14.3	2.5
Q2 2019	13.2	3.7	0.8
Q3 2019	4.8	4.1	2.6
Q4 2019 (r)	12.9	1.1	5.4
Q1 2020 (p)	4.70	-5.1	17.8

Source: Bureau of Economic Analysis (BEA), Foreign Direct Investment in the United States: Country and Industry Detail for Financial Transactions, June 2020.

TBIC Spotlight Article: Updates on the COVID-19 Crisis Part II

(This article summarizes parts of a TBIC webinar in June 2020.
The data has been updated on July 27, 2020)

COVID-19 continues to challenge us on a global scale. As of today, there have been over 16 million cases of coronavirus (COVID-19) worldwide and the number of fatalities currently totals 648,966. The disease has impacted around 188 countries, with the United States confirming the highest number of all global cases. The most severely affected countries right now include the United States, Brazil, India, and Russia. Throughout the past months, we at the TBIC provided our members with continuously updated information about the ongoing COVID-19 crisis through webinars and newsletter articles. This article is another piece in this series and includes updated political and economic data about the current situation in selected European FDI source-countries.

Europe is no longer the epicenter of the pandemic. Since May, the SARS-CoV-2 infections and fatalities are continuously declining. Most internal border controls were lifted mid-June with some countries (e.g. UK) demanding a 14-day quarantine. Travel restrictions to all other countries remained in place until the end of June. Only last week, the EU proposed to lift the temporary travel restrictions for countries showing low or decreasing numbers of SARS-CoV-2 infections including Australia, Canada, Japan and South Korea. The restrictions for countries showing critical numbers will remain in place. Only if the number of COVID-19 cases per 100,000 population is close to or below the EU average, a stable or decreasing trend can be seen over the past 14 days, and comprehensive containment measures are in place, the travel restriction for third countries will be lifted by the EU. All European countries are responsible for lifting their individual restrictive measures, consistent with each countries' COVID-19 progression. However, the European Commission urged the EU and its Member States to follow three principles when gradually lifting restrictive measures: a) action should be based on science and have public health at its center; b) action should be coordinated between the Member States; c) respect and solidarity between Member States remain essential to better coordinate, communicate and to mitigate the health and socio-economic impacts. With these principles at heart, Europe is currently assessing its economic damages and working on ways to restart its economy.

The **Nordic countries** had quite different approaches and measures towards the COVID-19 outbreak. While Denmark, Norway and Finland enforced lockdowns and strict measures to contain the virus, Sweden initially followed the "herd immunity" strategy which meant almost no governmental restrictions. This led to a delayed but more intense outbreak in Sweden than the other Nordic countries. As of now, Denmark, Norway and Finland show 10.5, 4.8 and 6 coronavirus fatalities per 100,000 population, respectively, while Sweden is currently at 55.5. While the numbers in the other Nordic countries are decreasing, Sweden still struggles with the delayed outbreak. Sweden's economic damages are about the same as Denmark's, even though the latter carried out strict lockdown measures including the closure of shops and businesses. Governments across the Nordic countries have approved extensive financial support packages for local businesses to restore export, as export is one of the most important economic inputs across the Nordic countries.

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The number of cases in **Germany** is comparatively low (206,667 infected; 9,124 fatalities). However, various local outbreaks (e.g. at the Tönnies meat processing factory, where about 1,500 workers were infected) prove that the pandemic is not over yet. Nevertheless, contact regulations have been eased, shops and schools gradually reopened with restrictions and large public events are banned until the end of October. Due to the coronavirus, the German economy is facing a deep recession; the fall in GDP is estimated at 6.6 percent if the virus subsides by the summer. Containment measures have been shorter and less stringent than in other major European economies, thanks to widespread testing and high health sector capacity. This has moderated the economic downturn, but uncertainty and reduced demand are still having a significant effect on business investment and exports in key sectors, in particular manufacturing. Even though the German GDP fell 12 percent in Q1 2020 compared to the previous quarter, the Kiel Institute for the World Economy (ifw) expects a rise in the second half of 2020. According to their economic outlook, the German GDP is expected to decline by 6.8 percent this year, followed by an increase of 6.3 percent in 2021. Currently about 6 million employees are in short-time work, a government-subsidized measure that enables companies to reduce their employee’s hours while paying them almost regular wages so that huge lay-offs can be avoided. However, registered unemployment in Germany increased by over 1 percent between March and May.

The first case of COVID-19 in **Switzerland** was recorded at the end of February 2020 and the virus spread quickly thereafter. From mid-March on, all schools were closed, and citizens were encouraged to stay home, especially the sick and the elderly. The government declared a ban on all private and public events and closed bars, restaurants, sports and cultural spaces. However, recently the number of new cases in Switzerland decreased significantly. While about 13,000 newly-infected where registered in April, only about 1,000 were registered in May and June. Due to these numbers, the Swiss government allowed schools, shops and restaurants to re-open under strict distancing measures. However, like most European countries, Switzerland currently advises against all non-essential international travel except to countries in the Schengen area and the UK. In Switzerland, many economic sectors have been severely impacted by the shutdown, especially tourism, hotels and restaurants, retail sales and cultural activities. By contrast, the pharmaceutical industry, which represents 30 percent of manufacturing value-added, has been resilient. In spite of the implementation of short-time work schemes, similar to the German one, the number of unemployed people increased significantly. The government set up multiple financial packages to support the country’s economy.

Even though the numbers of newly infected are decreasing, **France** shows Europe’s third highest number of fatalities due to COVID-19, after UK and Italy. Reduced pressures on the healthcare system allowed a gradual easing of the strict containment measures in mid-May, although some social and economic restrictions remain in place. Mainland France was declared a “green zone” in mid-June, meaning restrictions can ease faster. This led to the re-opening of restaurant, shops and beaches under tight restrictions. France’s strict lockdown measures brought the economy to a sudden halt. Consumption and investment fell sharply during the confinement period. If the pandemic is contained by the summer, real GDP will fall by about 11.4 percent in 2020 and rebound by 7.7 percent in 2021. According to the French Statistical Institute (INSEE), France’s economic activity in June was 12 percent below its pre-

crisis levels, which already shows a recovery compared to the economic activity in March (-16 percent) and April (-29 percent).

While the north of **Italy** was considered the world's COVID-19 hotspot in the spring, the situation has since then normalized. The number of fatalities and newly infected are constantly decreasing. After months of restricted freedom of movement Italy, like most other European countries, re-opened its border to EU citizens and ended regional travel restriction in June. Since May, shops and restaurants are gradually re-opening with limited seating and stricter hygiene regulations, while schools remain closed until the new school year. To restart the tourism industry, Italy decided to additionally re-open selected tourist sites. The Italian government estimates that the economy will contract by at least 8 percent this year. In the first quarter of 2020 the country’s GDP fell by 5.3 percent, reflecting the effects of the increasing restrictions on consumer demand, investment and exports during March. Despite the enhancement of short-time work schemes and the suspension (until mid-August) of businesses’ ability to dismiss workers for economic reasons, employment fell by 1.2 percent between March and April. In order to tackle the economic consequences of the outbreak, the Italian government announced three response packages with a total budget of EUR 75 billion (approx. USD 85 billion). Additionally, Italy is hoping for help from the planned European reconstruction fund proposed by the EU - with EUR 170 billion (approx. USD 192 billion) Italy would be the biggest beneficiary.

In general, EU countries are starting to look ahead and find new ways to recover from the economic impacts of the corona crisis. Last week, after one of the longest summits of EU history, EU leaders agreed on a EUR 750 billion (approx. USD 877 billion) financial plan as a response to the coronavirus pandemic, including the capacity to issue communalized debt. The EU’s recovery fund will be composed of EUR 390 bn (approx. USD 456 billion) in grants and EUR 360 billion (approx. USD 421 billion) in loans. Additionally, the heads of state and government also agreed on a new EUR 1.074 trillion (approx. US 1.26 trillion) seven-year budget, the Multiannual Financial Framework, which brings the total financial package to EUR 1.82 trillion (approx. USD 2.1 trillion).

The TBIC will continue to monitor the development of the COVID-19 crisis in Europe and update its members accordingly. For further information or questions get in touch with us today.

*The SARS-CoV-2/COVID-19 numbers in this article are from John Hopkins CCS and European Centre For Disease Prevention and Control, last accessed 07/27/2020

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