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

4rd Quarter 2020

[Data for Q2 2020]

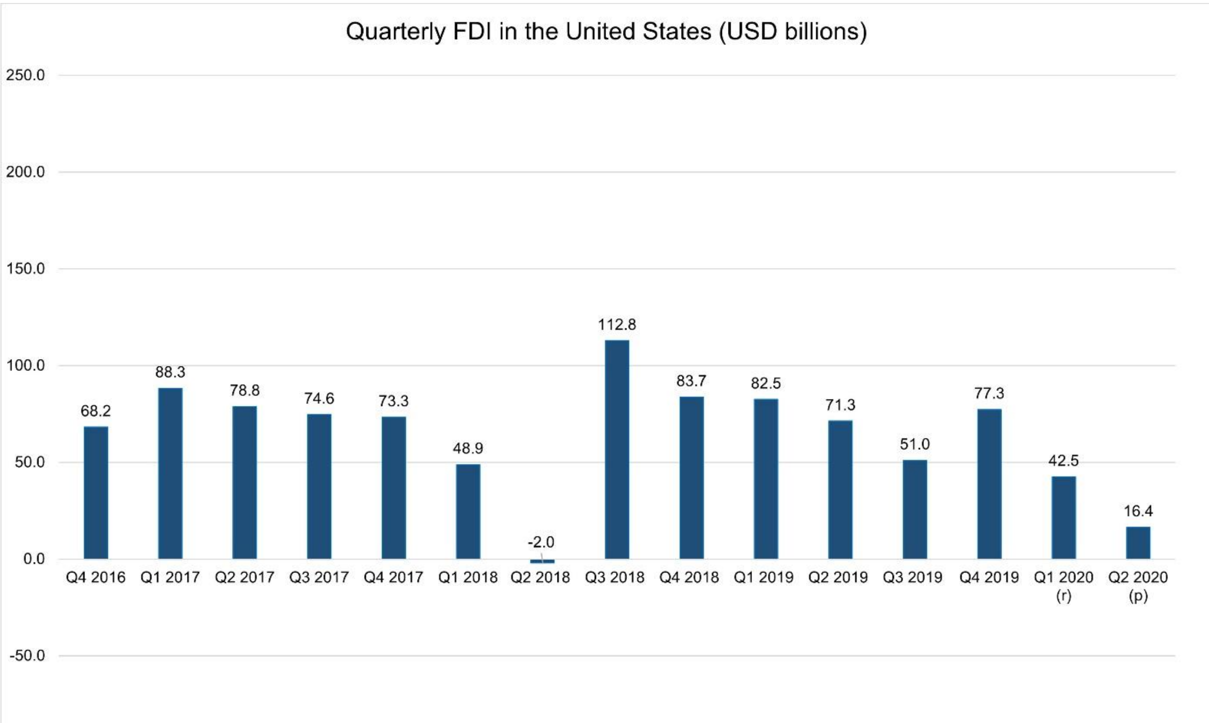
The Transatlantic Business & Investment Council (TBIC) is the official European representative of selected counties, cities and corporations from over 30 U.S. States. It is our mission to promote transatlantic trade and investment. To that end, the TBIC bridges the gap between Economic Development Organizations (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 Q2 2020 and revised data (r) for Q1 2020, 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 by about 62 percent from USD 42.5 billion in Q1 2020 (revised) to USD 16.4 billion in Q2 2020 – indicating the global economic disruptions due to COVID-19. The data for Q2 2020 shows the lowest level of FDI since Q2 2018 when an unusually high activity in mergers and acquisitions resulted in an FDI drop due to changes of ownership of foreign affiliates in the United States. The Food and Machinery sectors both declined to USD 0.6 million and 1 billion respectively, while the Transportation sector showed signs of a slight recovery with USD 600 million after previously showing an outflow of USD 1.9 billion in Q1 2020. Meanwhile, the European FDI inflows from Germany and Switzerland decreased by USD 1.4 billion to USD 1.7 billion and by USD 13 billion to USD 300 million, respectively and the FDI inflows from the UK in Q2 2020 slightly improved from an outflow of USD 7.6 to 7.3 billion. With this Quarterly, we also provide a status report about the European automotive industry.

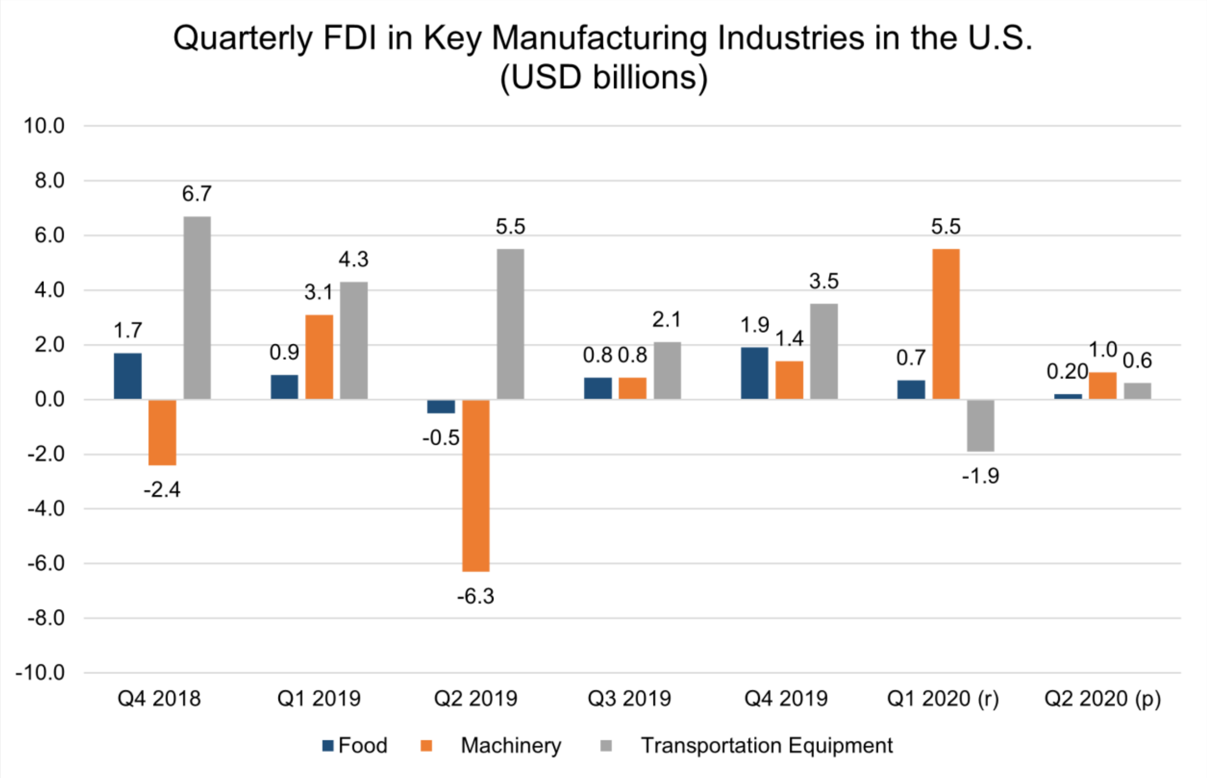
In this analysis, the TBIC corroborates relevant country data with its own experience of working at the frontier of transatlantic investments: the TBIC regularly visits key markets in Europe that have become drivers of FDI in the United States as part of Delegation Trips offered exclusively to our members. 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. All TBIC trips and events have been transformed into virtual formats for the time of transatlantic travel restrictions. To find out more, please click here.

Foreign Direct Investment in the United States: Key Figures

- In the newly published data for Q2 2020, FDI inflows in the first quarter of 2020 were revised downwards from USD 57.5 to 42.5 billion. Meanwhile, the data for Q2 2020 show an inflow of USD 16.4 billion – even with the usual fluctuations of quarter-to-quarter data, this drop of about USD 26 billion shows the impact of the COVID-19 pandemic on U.S. FDI inflows.
- Nevertheless, FDI inflows in the U.S. in the second quarter of 2020 remained positive – despite the onset of COVID-19 crisis. In its annual *World Investment Report* released in June, UNCTAD (United Nations Conference on Trade & Development) projected a decrease of 40 percent in 2020 of global FDI. For the United States, it projected an annualized drop between 25-35 percent. Consequently, it will be imperative to watch the performance of US FDI for the remaining quarters of 2020, given the opening of the economy and consequent recovery from Q3 onwards.[1]



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

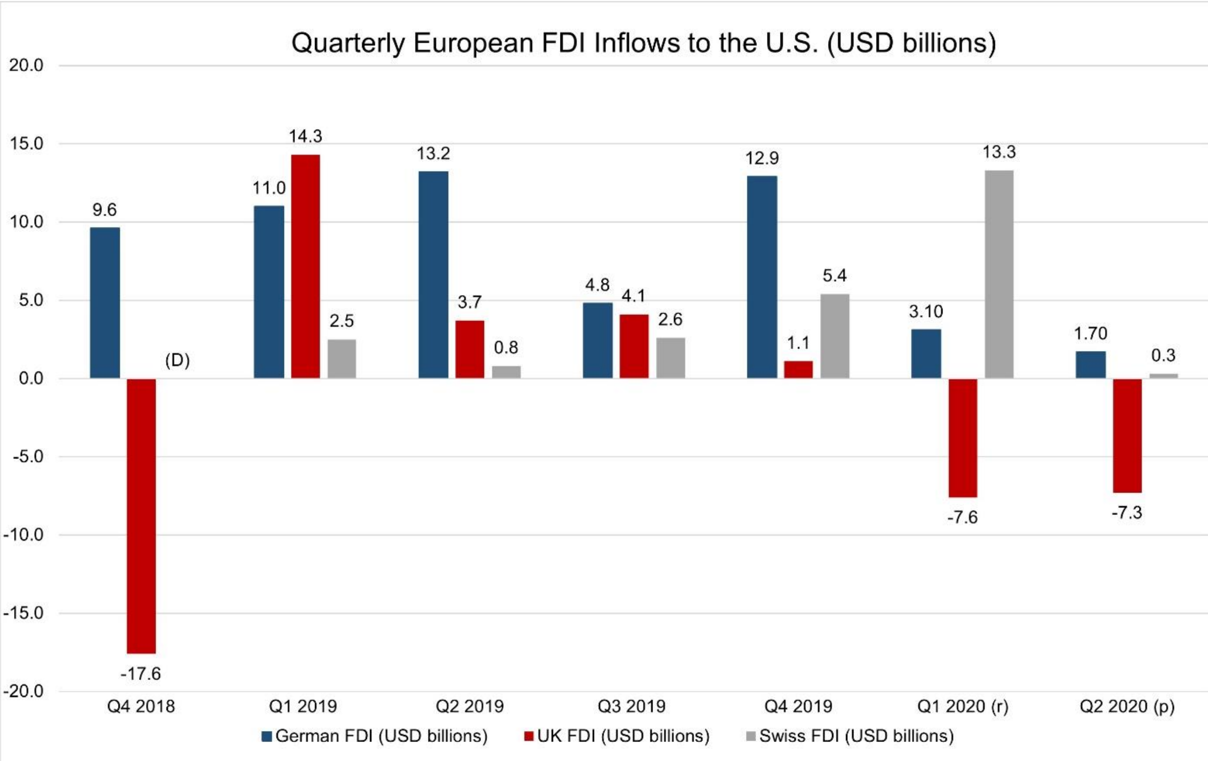


Source: Bureau of Economic Analysis (BEA), Foreign Direct Investment in the United States: Country and Industry Detail for Financial Transactions, September 2020.

- The new dataset for Q2 2020 also contains revised numbers for Q1 2020: while the Food sector was revised downward from USD 4.6 billion to USD 700 million, the Machinery sector was revised slightly upward from USD 5.4 billion to USD 5.5 billion. The Transportation sector accounted for the biggest revision, from USD 500 million to an outflow of 1.9 billion.
- The second quarter of 2020 shows the impact of the COVID-19 pandemic across most sectors: the Food sector's FDI slightly declined from USD 700 million in Q1 2020 to USD 200 million in Q2 2020, while the Machinery sector showed a larger decline from USD 5.5 billion in Q1 to USD 1 billion in Q2.
- While the – usually stable – Transportation sector experienced one of its most challenging quarters at the beginning of the year, the second quarter of 2020 shows a slight recovery – from an outflow of USD 1.9 billion in Q1 to an inflow of USD 600 million in Q2.

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

- The numbers for Q1 2020 have all been revised downwards for our three source countries: German FDI was revised downward by USD 1.6 billion from USD 4.7 to 3.1 billion, UK FDI was revised downward from an outflow of USD 5.1 to a starker one of 7.6 billion and Swiss FDI was revised from USD 17.8 to 13.3 billion.
- Similar to the industrial sector FDI data, the pandemic's impact can also be seen in the Q2 2020 data for European FDI inflows. German FDI, which had already slowed in Q1, decreased by USD 1.4 billion to USD 1.7 billion, while Swiss FDI fell by USD 13 billion to USD 300 million. UK FDI in Q2 2020 continued their downward trend with an outflow of USD 7.3 billion versus 7.6 in Q1.



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

Status Report: What to Expect From the European Automotive Industry

The European automotive industry generates an annual trade surplus of EUR 74 billion (approx. USD 87 billion) for the EU and the industry's turnover represents over 7 percent of the EU's GDP. The automotive industry provides direct and indirect jobs for approx. 13.8 million Europeans which constitutes 6.1 percent of total employment in the European Union: manufacturing accounts for 3.6 million jobs, sales and maintenance for 4.7 million and transport for 5.5 million. In 2019 alone, nearly 18 million vehicles were "Made in Europe", representing about 20 percent of global vehicle production. Generally, 25 percent of all passenger cars and 19 percent of all commercial vehicles produced worldwide are made in Europe.

Immediate effect of the COVID-19 pandemic

Like most manufacturing industries, the automotive industry has been hit hard by the ongoing COVID-19 pandemic. Around the globe, production stops, plant shutdowns and the decrease in demand during the lockdown period have negatively influenced the automotive industry. During the first half of the year, in the automotive industry's major sales regions - China, the U.S. and Europe - a total of 7.5 million fewer passenger cars were sold than in the same period last year, which represents a 28 percent drop in sales. According to the German Association of the Automotive Industry (VDA), the European market experienced the hardest hit among all major sales regions: only 5.1 million new passenger cars were registered on the continent in the first six months of 2020 - 39 percent less than over the same period in 2019. The European Automobile Manufacturers Association's (ACEA) forecast for the year 2020 projects the lowest number of new cars sold since 2013, when in the aftermath of the 2008-2009 financial crisis the industry had just come through six consecutive years of decline. A record drop of 25 percent in EU car sales is expected for this year.

Positive signals for a comeback

However, recent data shows that the automotive industry is well on the path to recovery. The European automotive market seems to stabilize, just as various industries are figuring out how to work under newly introduced measures to curb the spread of the virus. When Italy emerged from their strict lockdown in May, industrial production jumped by 42.1 percent. Similarly, French industry output climbed by 19.6 percent in May, surpassing economists' earlier expectations of a 15.1 percent rise by nearly a third. The German government is currently projecting a 4.4 percent economic growth for 2021, with the nation's economy expected to return to pre-corona levels in early 2022. Taking a closer look at the automotive industry, France was the only market in Europe to rebound in June. According to the automotive market analyst Matthias Schmidt, the French market was so quick to rebound due to their newly introduced subsidies on the purchase of electric vehicles. Starting in July, sales of cars in Germany slowly began to rise. A total of 315,000 new passenger cars were registered in Germany in July – only 5 percent below the level of July 2019. Expectations for the European automotive sector are now higher than most people had anticipated earlier this year.

EU implements recovery plan and envisions future track for the industry

Many European governments as well as the European Commission tie an eventual recovery of the European automotive market following the COVID-19 crisis to the region's Research, Development and Innovation (RDI) efforts in that industry. The automotive sector is the EU's number one investor in RDI, responsible for 29 percent of total RDI spending. Over the last months, the European Investment Bank (EIB) has announced plans to finance a variety of different automotive RDI projects, all in line with the EU's new mobility plan. The Spanish automotive supplier company Gestamp, for example, is receiving a EUR 200 million (approx. USD 236 million) loan from the EIB to further work on and implement their innovation strategy. Their goal is to develop new research lines enabling the production of safer, lighter and therefore more environmentally friendly cars. Such EIB-backed projects center around technological trends like sustainable mobility, e-mobility and car connectivity which are currently promising areas in the global automotive market. The global market for energy-efficient passenger cars, for example, is expected to grow by almost 30 percent in 2020.

In most European countries, the automotive industry is working closely with their governments to realize e-mobility plans. The German automotive sector has set itself the ambitious goal of becoming a leading provider of and market for electromobility solutions in 2020. Even though these plans were initiated before the nationwide lockdown, Germany remains determined to reach this goal. Financial support packages for the industry in support of this goal included an effective doubling of cash incentives for electric vehicles purchases and significant investment in charging infrastructure. Other European countries have initiated similar measures to boost their economy.

How will TBIC respond to these new developments?

TBIC is increasingly identifying suppliers whose components are also used in e-cars and interiors, as well as companies who can benefit from increased e-mobility. One of these suppliers is GEDIA Automotive Group (to learn more about GEDIA click here or read the following interview), the company behind Project Anvil - one of last year's RFIs that were shared with TBIC Members. In normal times, the TBIC expands its network for its members by regularly attending events like the Automotive Interiors Expo and the International Suppliers Fair (both in Germany). Even though both shows have been cancelled for this year given the ongoing restrictions associated with the pandemic, the TBIC has reacted dynamically by shifting its missions to the digital realm, thus continuing to connect its members to companies from these sectors. The upcoming Virtual Transatlantic Business & Investment Conference on November 17 will cover the status of the European automotive industry and other industries in regards to Foreign Direct Investment.

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